

Executive Summary

of Investment Performance

**Prepared for
California Public Employees'
Retirement System**

Second Quarter 2006

Capital Market Overview

- ◆ The second quarter of 2006 saw increased inflation fears and heightened geo-political unrest in the Middle East. This drove crude oil prices to near-term highs, and depressed the U.S. equity markets. The Fed Funds overnight rate was raised to 5.25% as the Federal Reserve stated they saw continued inflationary pressures in the U.S. economy. The Dow Jones Wilshire 5000 Index and the S&P 500 Index were down for the period only returning -2.0% and -1.4%, respectively, as investors retreated from the equity markets in the face of economic and political uncertainty. Within the Dow Jones Wilshire GICS sectors, Utilities was the top performing sector with a return of 5.4%, as energy prices rose to near-record levels; while Information Technology was the worst performer. Small cap stocks fared much worse than their large cap counterparts (Dow Jones Wilshire Large Cap, -1.5%; Dow Jones Wilshire Small Cap, -4.3%) and value outperformed growth across the size spectrum (Dow Jones Wilshire Large Value, 0.6%; Dow Jones Wilshire Large Growth, -3.8%; Dow Jones Wilshire Small Value, -2.1%; Dow Jones Wilshire Small Growth, -6.6%). Micro cap issues trailed both their large cap and small cap counterparts, producing a return of -6.4%.
- ◆ The pullback in stocks was a global phenomenon as non-US equity markets also shed recent gains. However, the weak US Dollar translated some losses into gains as the MSCI ACWI ex-US Index returned 0.2% and -3.9% in USD and local currencies, respectively. European regions outperformed Pacific-Basin regions with the latter region dragged down by the Japanese central bank's plan to raise interest rates for the first time in over a decade (MSCI Europe 2.5% USD and -3.4% local currency; MSCI Pacific -3.0% USD and -5.9% local currency). Due to weakened currencies against the Dollar, the emerging markets outperformed their developed counterpart in local currency terms but trailed in USD terms (MSCI EMF Index -4.3% USD and -2.9% local currency; MSCI EAFE Index 0.7% USD and -4.3% local currency).
- ◆ The Federal Reserve continued its policy of raising the discount rate to contain inflation and brought the discount rate to 5.25% with two more 25-basis point increases. The Lehman Aggregate Bond Index fell during the quarter, returning -0.1%. Among the Lehman sectors, the Mortgage sector outperformed the Credit sector, returning 0.0% and -0.4%, respectively. As interest rates rose, short-term Treasuries continued to outpace longer-term Treasuries (Lehman 1-3 Year Treasury, 0.6%; Lehman Long Term Treasury, -1.2%). News of corporate restructurings at General Motors and Ford Motor Company tightened spreads of their non-investment grade paper, which helped high yield bonds outperform their investment grade counterparts. The Citigroup High Yield Cash Pay Index returned 0.0% for the period. International bond markets outperformed the U.S. bond market as the Citigroup Non-US Government Bond Index generated a return of 4.0% during the quarter.
- ◆ The public real estate securities market, as represented by the Dow Jones Wilshire Real Estate Securities Index ("DJWRESI"), gave back some of its impressive gains from the first quarter and returned -1.0% for the quarter. Given the broad market pullback, the real estate securities asset class is still the best performing asset class on a 1-year basis, returning 21.9%. The NCREIF Property Index reported a return of 4.0%, reflecting the fact that the index is measured on an appraised basis and therefore lags public market returns.



Summary of Index Returns

For Periods Ended June 30, 2006

| | <u>Quarter</u> | <u>One Year</u> | <u>Three Years</u> | <u>Five Years</u> | <u>Ten Years</u> |
|-----------------------------------|----------------|---------------------|------------------------|-----------------------|----------------------|
| Domestic Equity | | | | | |
| Standard & Poor's 500 | -1.43% | 8.63% | 11.21% | 2.48% | 8.31% |
| Dow Jones Wilshire 5000 | -1.96 | 9.92 | 12.98 | 4.02 | 8.45 |
| Dow Jones Wilshire 4500 | -3.65 | 14.03 | 18.84 | 8.90 | 9.26 |
| Dow Jones Wilshire Large Cap | -1.53 | 9.08 | 11.99 | 3.12 | 8.40 |
| Dow Jones Wilshire Small Cap | -4.29 | 15.31 | 20.00 | 10.38 | 10.51 |
| Dow Jones Wilshire Micro Cap | -6.42 | 15.05 | 20.46 | 16.86 | 13.28 |
| Domestic Equity | | | | | |
| Dow Jones Wilshire Large Value | 0.58% | 10.19% | 14.05% | 6.58% | 10.04% |
| Dow Jones Wilshire Large Growth | -3.75 | 7.93 | 9.88 | -0.19 | 6.35 |
| Dow Jones Wilshire Mid Value | -2.32 | 10.98 | 17.00 | 10.12 | 13.24 |
| Dow Jones Wilshire Mid Growth | -5.31 | 15.91 | 20.30 | 7.87 | 7.58 |
| Dow Jones Wilshire Small Value | -2.09 | 14.96 | 20.11 | 13.59 | 13.51 |
| Dow Jones Wilshire Small Growth | -6.55 | 15.69 | 19.82 | 6.87 | 6.76 |
| International Equity | | | | | |
| MSCI All World ex U.S. | 0.21% | 28.40% | 25.77% | 11.85% | 7.16% |
| MSCI EAFE | 0.70 | 26.55 | 23.94 | 10.02 | 6.39 |
| MSCI Europe | 2.54 | 24.75 | 23.39 | 10.44 | 10.09 |
| MSCI Pacific | -2.97 | 30.92 | 25.37 | 9.02 | 1.19 |
| MSCI EMF Index | -4.27 | 35.90 | 34.76 | 21.54 | 6.66 |
| Domestic Fixed Income | | | | | |
| Lehman Aggregate Bond | -0.08% | -0.81% | 2.05% | 4.97% | 6.22% |
| Lehman Credit | -0.39 | -2.06 | 1.96 | 5.66 | 6.52 |
| Lehman Mortgage | 0.01 | 0.40 | 2.89 | 4.65 | 6.13 |
| Lehman Treasury | -0.06 | -1.68 | 1.16 | 4.69 | 5.99 |
| Citigroup High Yield Cash Pay | -0.04 | 3.99 | 8.04 | 8.79 | 6.93 |
| 91-Day Treasury Bill | 1.15 | 3.98 | 2.36 | 2.25 | 3.81 |
| International Fixed Income | | | | | |
| Citigroup World Gov. Bond | 3.17% | -0.36% | 4.25% | 8.52% | 5.44% |
| Citigroup Non-U.S. Gov. Bond | 4.04 | -0.01 | 5.05 | 9.61 | 4.94 |
| Citigroup Hedged Non-U.S. Gov. | 0.03 | 0.29 | 3.02 | 4.29 | 6.73 |
| Currency* | | | | | |
| Euro vs. \$ | 5.66% | 5.62% | 3.65% | 8.60% | -.% |
| Yen vs. \$ | 3.21 | -3.07 | 1.65 | 1.76 | -0.41 |
| Pound vs. \$ | 6.63 | 3.19 | 3.88 | 5.63 | 1.76 |
| Real Estate | | | | | |
| Dow Jones Wilshire REIT Index | -1.12% | 22.00% | 27.68% | 20.16% | 16.15% |
| Dow Jones Wilshire RESI | -1.04 | 21.87 | 28.40 | 19.93 | 15.64 |
| NCREIF Property Index | 4.01 | 18.67 | 15.79 | 12.01 | 12.41 |

*Positive values indicate dollar depreciation.



Total Fund Review Periods Ended 6/30/06

| | Market Value \$208.0 bil. | Qtr | 1 Year | 3 Year | 5 Year | 10 Year | 5-year Info Ratio* |
|---|--|--------------|---------------|---------------|---------------|----------------|-------------------------------|
| TOTAL FUND | | -0.5% | 11.9% | 13.5% | 7.4% | 9.0% | 0.9 |
| <i>Total Fund Policy Index</i> ¹ | | -0.2% | 11.0% | 12.5% | 6.7% | 8.3% | |
| <i>Actuarial Rate</i> | | 1.9% | 7.8% | 7.8% | 7.9% | 8.1% | |
| <i>TUCS Public Fund Median</i> | | -0.9% | 9.4% | 11.4% | 6.3% | 8.3% | |
| <i>Wilshire Large Fund Universe Median</i> ² | | -0.9% | 10.7% | 12.2% | 6.6% | 8.4% | |
| TOTAL GLOBAL EQUITY EX-AIM ³ | 131.2 | -1.6% | 15.6% | 17.2% | 6.6% | 9.0% | 1.3 |
| <i>Equity Policy Index</i> ⁴ | | -1.3% | 15.4% | 16.6% | 6.1% | 8.1% | |
| <i>TUCS Equity Median</i> ⁵ | | -2.3% | 10.8% | 14.6% | 5.4% | 9.8% | |
| TOTAL FIXED INCOME ⁶ | 49.9 | 0.0% | -1.1% | 3.9% | 7.1% | 7.2% | 0.3 |
| <i>Fixed Income Policy Index</i> ⁷ | | -0.2% | -2.7% | 2.7% | 6.5% | 6.7% | |
| <i>TUCS Fixed Income Median</i> | | 0.1% | 0.2% | 2.6% | 5.4% | 6.5% | |
| TOTAL REAL ESTATE ⁸ | 15.0 | 4.5% | 32.1% | 24.8% | 17.6% | 15.1% | 1.4 |
| <i>NCREIF Property Index Lagged</i> | | 3.6% | 20.2% | 15.1% | 11.7% | 12.2% | |
| <i>TUCS Real Estate Median</i> | | 2.8% | 19.5% | 16.7% | 12.4% | 12.9% | |
| TOTAL AIM PROGRAM | 11.3 | 5.1% | 19.1% | 18.1% | 6.2% | -.% | 0.3 |
| <i>Policy Index</i> ⁹ | | 3.9% | 18.6% | 14.8% | 1.8% | -.% | |
| CASH EQUIVALENTS | 0.6 | 1.2% | 4.4% | 2.6% | 2.5% | 4.2% | |
| <i>Custom STIF</i> ¹⁰ | | 1.2% | 4.2% | 2.4% | 2.3% | 3.9% | |

¹The Total Fund Policy Index return equals the return for each asset class benchmark weighted at the current target asset allocations.

²These returns represent preliminary numbers.

³Includes domestic equity, international equity, corporate governance, and MDP ventures.

⁴The Equity Policy Index return equals the benchmark returns for the domestic equity and international equity segments weighted at policy allocation target percentages.

⁵Includes domestic and international equity.

⁶The Total Fixed Income Composite does not include LM Capital. LM Capital has been mapped to the domestic equity composite, effective 1Q2005, per CalPERS' direction.

⁷The Fixed Income Policy Index return equals the benchmark returns for domestic and international fixed income components weighted at policy allocation target percentages.

⁸Real estate total returns are net of investment management fees and all expenses, including property level operations expenses netted from property income. This method differs from GASB 31, which requires all investment expenses be identified for inclusion in the System's general purpose financial statements.

⁹The AIM Policy Index consists of the Custom Young Fund Universe and is linked historically to its prior benchmark.

¹⁰The Custom STIF Policy Index is a custom index maintained by SSgA.

* The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per risk ventured.



Total Fund Review (continued)

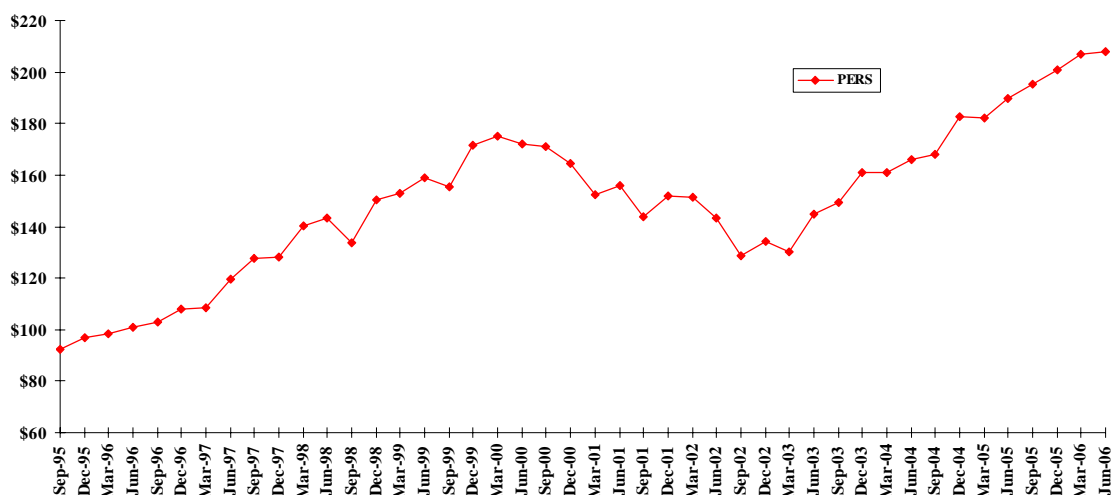
Periods Ended 6/30/06

Total Fund Flow

| <u>(\$Millions)</u> | <u>Beg. Mkt Value</u> | <u>Net Cash Flow</u> | <u>Invest. Mgmt Fees</u> | <u>Invest. Gain/Loss</u> | <u>End. Mkt Value</u> | <u>Total Return</u> |
|---------------------|-----------------------|----------------------|--------------------------|--------------------------|-----------------------|---------------------|
| 2Q2006 | 206,903 | -80 | -112 | 1,287 | 207,999 | -0.5% |

Historical Growth of Assets

| | <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>3Q05</u> | <u>4Q05</u> | <u>1Q06</u> | <u>2Q06</u> |
|----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Market Value (\$bil) | 128.3 | 150.5 | 171.7 | 164.6 | 151.7 | 134.1 | 161.0 | 182.8 | 195.3 | 200.6 | 206.9 | 208.0 |



Asset Allocation

Asset Allocation: Actual versus Target Weights

| <u>Asset Class</u> | <u>Actual Asset Allocation</u> | <u>Target Asset Allocation</u> | <u>Difference</u> |
|--------------------|--------------------------------|--------------------------------|-------------------|
| Equities | 63.1% | 60.0% | +3.1% |
| Fixed Income | 24.0 | 26.0 | -2.0 |
| Real Estate | 7.2 | 8.0 | -0.8 |
| AIM | 5.4 | 6.0 | -0.6 |
| Cash Equivalents | 0.3 | 0.0 | +0.3 |

CalPERS Historical Asset Allocation

| | <u>1996</u> | <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>1Q06</u> | <u>2Q06</u> |
|----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| % Equity | 62 | 66 | 69 | 70 | 64 | 63 | 57 | 63 | 63 | 62 | 65 | 63 |
| % AIM | - | - | - | - | - | - | 5 | 5 | 5 | 5 | 5 | 5 |
| % Fixed Income | 31 | 28 | 26 | 24 | 29 | 27 | 28 | 24 | 24 | 25 | 24 | 24 |
| % Real Estate | 6 | 5 | 4 | 5 | 6 | 9 | 9 | 7 | 6 | 5 | 6 | 7 |
| % Cash Equiv. | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 3 | 0 | 0 |



California Public Employees' Retirement System
Total Fund Attribution
Total Composite
Quarter Ended 6/30/06

| Composite | Allocation | | | Returns | | | Total Fund Return Contribution | | | | | |
|----------------------------------|--------------|--------------|----------------|-------------|-------------|----------------|--------------------------------|-----------------|--------------|----------------------|---------------------|--|
| | Policy (%) | Actual (%) | Difference (%) | Policy (%) | Actual (%) | Difference (%) | Actual Allocation (%) | Active Mgmt (%) | Activity (%) | Strategic Policy (%) | Weighted Return (%) | |
| Total Equity ex-AIM | 60.0 | 64.7 | 4.7 | -1.3 | -1.6 | -0.3 | -0.1 | -0.2 | 0.0 | -0.8 | -1.0 | |
| U.S. Equity | 38.8 | 40.2 | 1.4 | -2.0 | -2.1 | -0.1 | 0.0 | 0.0 | 0.1 | -0.8 | -0.7 | |
| Internal Passive (including DCF) | 28.0 | 31.3 | 3.3 | -2.0 | -2.1 | -0.1 | -0.1 | 0.0 | 0.0 | -0.6 | -0.7 | |
| Internal Enhanced | 2.0 | 1.7 | -0.3 | -2.0 | -2.2 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| External Enhanced | 4.0 | 3.4 | -0.6 | -1.9 | -1.8 | 0.1 | 0.0 | 0.0 | 0.0 | -0.1 | -0.1 | |
| Active | 2.0 | 2.0 | 0.0 | -2.0 | -2.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Corporate Governanace | 2.0 | 0.9 | -1.1 | -1.6 | -4.1 | -2.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| MDP | 0.8 | 0.9 | 0.1 | -2.6 | -2.8 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Non-U.S. Equity | 19.4 | 23.5 | 4.1 | 0.1 | -1.0 | -1.1 | 0.0 | -0.3 | 0.0 | 0.0 | -0.2 | |
| Passive | 10.4 | 13.6 | 3.1 | 0.9 | -0.8 | -1.7 | 0.0 | -0.2 | 0.0 | 0.1 | -0.1 | |
| Enhanced | 1.7 | 1.9 | 0.2 | 0.9 | 0.4 | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Active | 3.9 | 4.3 | 0.5 | 0.9 | -0.1 | -1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Emerging Markets | 2.0 | 2.4 | 0.4 | -5.3 | -6.4 | -1.1 | 0.0 | 0.0 | 0.0 | -0.1 | -0.2 | |
| Corporate Governanace | 1.0 | 1.1 | 0.1 | -4.3 | 1.3 | 5.6 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | |
| MDP | 0.4 | 0.2 | -0.2 | 0.6 | 0.9 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Currency Overlay | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| RM ARS | 2.0 | 1.1 | -0.9 | 2.1 | -0.7 | -2.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Total Fixed Income | 26.0 | 24.2 | -1.8 | -0.2 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | |
| U.S. Fixed Income | 23.0 | 21.3 | -1.7 | -0.7 | -0.4 | 0.3 | 0.0 | 0.1 | 0.0 | -0.2 | -0.1 | |
| Internal U.S. Bonds^ | 21.2 | 20.3 | -0.9 | -0.7 | -0.6 | 0.1 | 0.0 | 0.0 | 0.0 | -0.1 | -0.1 | |
| Special Investments^ | 1.0 | 0.4 | -0.6 | -0.7 | 1.6 | 2.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Opportunistic^ | 0.8 | 0.6 | -0.2 | -0.2 | 2.6 | 2.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Non-U.S. Fixed Income | 3.0 | 2.9 | -0.1 | 3.7 | 3.3 | -0.4 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | |
| Real Estate | 8.0 | 5.6 | -2.4 | 3.6 | 4.5 | 0.9 | -0.1 | 0.1 | 0.0 | 0.3 | 0.3 | |
| AIM Program | 6.0 | 5.1 | -0.9 | 3.9 | 5.1 | 1.2 | 0.0 | 0.1 | 0.0 | 0.2 | 0.3 | |
| Cash Equivalents | 0.0 | 0.3 | 0.3 | 1.2 | 1.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Total Fund | 100.0 | 100.0 | 0.0 | -0.2 | -0.5 | -0.3 | -0.2 | 0.0 | 0.0 | -0.3 | -0.5 | |



Total Fund Review (continued)

- ◆ The California Public Employees' Retirement System ("CalPERS, the System") generated a total fund return of -0.5%, for the quarter ended June 30, 2006. CalPERS' return can be attributed as follows:

| | |
|--------------|----------------------------------|
| -0.3% | Strategic Policy Allocation |
| -0.2% | Actual/Tactical Asset Allocation |
| 0.0% | Activity/Timing |
| <u>+0.0%</u> | Active Management |
| -0.5% | Total Return |

- ◆ The total fund attribution table on the previous page displays the return contribution of each asset class to the total fund. This table will allow the Board to see if tactical allocation and active management within asset classes helped or hurt performance during the quarter.
 - Strategic Policy: The contribution to total return from each asset class, calculated as the percentage allocated to each asset class multiplied by the benchmark for that asset class.
 - Activity: The Activity contribution column is the difference between the "buy and hold" portfolio and the weighted return and would be caused by timing and size of cash flows (transfers, deposits, and withdrawals).
 - Actual Allocation: The return contribution during the quarter due to differences in the actual allocation from the policy allocation (i.e. the actual allocation to total equity was higher than the policy allocation). A positive number would indicate an overweight benefited performance and vice versa.
 - Active Management: The return contribution from active management. The number would be positive if the asset class outperformed the designated policy index and vice versa (i.e. the US fixed income segment outperformed its custom benchmark during the quarter and contributed positively to active management).
 - Actual Return: The actual return of the asset classes if allocations to them were static during the quarter. These returns will not match exactly with the actual segment returns since asset class allocations change during the quarter due to market movement, cash flows, etc.
- ◆ The Total Fund composite underperformed its strategic policy mainly due to the US equity segment. However, the System has beaten its weighted policy index for the 1-year, 3-year 5-year, and 10-year periods, and it has also outpaced its actuarial rate of return over the one-year, three-year, and ten-year periods.



Total Fund Review (continued)

Helped Performance:

- ◆ **Real Estate:** The System's real estate segment, with a return of 4.5%, easily exceeded the total fund policy's return of -0.2%. The composite benefited from its exposure to core real estate investments, which helped boost performance. The total fund composite continues to benefit from its exposure to real estate over all time periods.
- ◆ **AIM Program:** The alternative investment program continues to contribute favorably to the total fund composite return over the quarter and for all longer periods.
- ◆ **International Fixed Income:** The international bond market produced a gain of 3.3% for the quarter and beat the total fund policy but lagged its policy benchmark.

Impeded Performance:

- ◆ **U.S. Equity Exposure:** The System's U.S. equity asset class had a negative return for the quarter and underperformed versus the total fund policy of -0.2%. However, U.S. equities have outperformed the total fund policy for the 1 year and 3 year time periods.
- ◆ **International Equity Exposure:** The System's international equity program had a negative return of -1.0% for the quarter lagging the total fund policy return of -0.2%. Emerging markets were down as investors took gains in the wake of higher energy prices.
- ◆ **U.S. Bond Exposure:** Bond markets saw negative returns as yields rose during the quarter and CalPERS' domestic fixed income asset class lagged the total fund policy but beat its policy index.
- ◆ **Corporate Governance:** The System's corporate governance program lagged the total fund policy for the quarter. However, the corporate governance segment has produced favorable contributions to the total fund performance for the 1-year, 3-year, and 5-year time periods.
- ◆ **RM ARS Program:** The RM ARS Program lagged the total fund policy, but outperformed versus the US equity segment, which was its funding source.



Total Equity Review

Periods Ended 6/30/06

Equity Allocation

Asset Allocation: Actual versus Target Weights

| Asset Class | Actual Asset Allocation | Target Asset Allocation | Difference |
|-----------------|-------------------------|-------------------------|------------|
| US Equities | 40.0 | 40.0% | 0.0 |
| Non US Equities | 23.1 | 20.0 | +3.1 |

Equity Segment Performance

| | Market Value | Qtr | 1 Year | 3 Year | 5 Year | 10 Year | 5-year Info Ratio** |
|---|--------------|--------------|--------------|--------------|--------------|-------------|---------------------|
| Total Global Equity ex-AIM^{11*} | 131.2 | -1.6% | 15.6% | 17.2% | 6.6% | 9.0% | 1.3 |
| <i>Equity Policy Index¹²</i> | | -1.3% | 15.4% | 16.6% | 6.1% | 8.1% | |
| <i>Value Added</i> | | -0.3% | 0.2% | 0.6% | 0.5% | 0.9% | |
| US Equity Composite | 79.0 | -2.1% | 9.6% | 12.4% | 3.7% | 8.6% | 0.7 |
| <i>PERS Wilshire 2500 Index</i> | | -2.0% | 9.5% | 12.4% | 3.5% | 8.3% | |
| <i>Value Added</i> | | -0.1% | 0.1% | 0.0% | 0.2% | 0.3% | |
| Non-US Equity Composite | 45.4 | -1.0% | 27.1% | 24.1% | 9.7% | 7.6% | 0.4 |
| <i>PERS SSgA Custom Index¹³</i> | | 0.1% | 27.7% | 25.3% | 11.3% | 6.1% | |
| <i>Value Added</i> | | -1.1% | -0.6% | -1.2% | -1.6% | 1.5% | |
| RM ARS Program | 2.8 | -0.7% | 11.4% | 9.8% | -.% | -.% | 0.1 |
| <i>Policy Index¹⁴</i> | | 2.1% | 8.0% | 9.6% | -.% | -.% | |
| <i>Value Added</i> | | -2.8% | 3.4% | 0.2% | -.% | -.% | |
| Corporate Governance | 4.0 | -1.4% | 16.9% | 24.1% | 12.0% | -.% | |
| <i>Policy Index¹⁵</i> | | -3.0% | 19.9% | 18.2% | 7.6% | -.% | |
| <i>Value Added</i> | | 1.6% | -3.0% | 5.9% | 4.4% | -.% | |

¹¹ Includes domestic equity, international equity, corporate governance, and the RM ARS program.

¹² The Equity Policy Index return equals the benchmark returns for the domestic equity and international equity segments weighted at policy allocation target percentages.

¹³ The PERS SSgA Custom Index currently represents the FTSE All World ex US Index. This Index is linked historically to its prior benchmarks.

¹⁴ The RM ARS Policy consists of the Merrill Lynch 1-Year Treasury Note +5% and is linked historically to its prior benchmark.

¹⁵ The Corporate Governance Index return equals the return for each manager's benchmark weighted at the current target asset allocation.

* Composites do not add up due to the following accounts being included in the Total Global Equity Ex- Aim and not in the underlying composites: LM Capital, Internal Domestic and International Equity Transition accounts, and SSgA International Environmental. In addition, there may be rounding differences.

** The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per risk ventured.



Total Equity Review (continued)

Comments Regarding Recent Equity Segment Performance

Helped Performance:

- ◆ **Internal International Equity Index:** The System's internally managed international equity index outperformed the equity policy index over the quarter, adding value to the overall equity composite, and met its specific portfolio objective.
- ◆ **International Equity Exposure:** The System's international equity managers contributed to the overall performance for the quarter. The segment outperformed the total equity policy this quarter and has added value since inception.
- ◆ **RM ARS Program:** The System's RM ARS program beat the equity policy index for the quarter. It has beaten its benchmark for all time periods longer than one quarter.
- ◆ **International Equity MDP:** The international equity MDP program outperformed the total equity policy this quarter, and has added value over longer periods.
- ◆ **International Environmental Program:** The international environmental program outperformed the total equity policy this quarter.

Impeded Performance:

- ◆ **Internal PERS 2500:** The System's internal PERS 2500 index fund lagged the equity policy index. However, the fund's performance matched that of its custom benchmark which is consistent with its objective.
- ◆ **Currency Overlay:** The System's currency overlay program lagged the equity policy index. However, it has added significant value to the overall equities return over the one-year, and three-year time periods, hedging out currency risks in the face of a strengthening Dollar over the past year.
- ◆ **Dynamic Completion Fund (DCF):** The DCF portfolio lagged the equity policy return for the quarter and has underperformed over the one-year, three-year, and five-year periods.
- ◆ **Corporate Governance:** The corporate governance program slightly lagged the total equity policy index but beat the domestic equity policy index for the quarter.
- ◆ **Emerging Markets Exposure:** The System's emerging market managers lagged the equity policy index as emerging returns lagged developed. However, the emerging markets segment outpaced the total equity return over all other longer periods.
- ◆ **Domestic Equity MDP:** The System's domestic MDP program lagged the total equity policy. The program has outperformed for all other time periods versus the domestic equity policy since inception.
- ◆ **Domestic Internal Micro-Cap Exposure:** The internal micro-cap portfolio lagged the equity policy index over the quarter. The portfolio has outperformed the equity policy over the one-year period.
- ◆ **Environmental Domestic Equity:** The environmental domestic equity lagged the total equity policy and the domestic equity return for the quarter.



Total Equity Review - U.S. Equity Manager Performance*

| | Market Value | Qtr | 1 Year | 3 Year | 5 Year | Incept. | Date |
|---|-------------------------|--------------|---------------|---------------|---------------|----------------|--------------|
| US Equity Composite* | 79.0 | -2.1% | 9.6% | 12.4% | 3.7% | 12.8% | 12/79 |
| <i>PERS Wilshire 2500 Index</i> | | -2.0% | 9.5% | 12.4% | 3.5% | | |
| <i>Value Added</i> | | -0.1% | 0.1% | 0.0% | 0.2% | | |
| Total Internal Equity* | 67.2 | -2.1% | 9.6% | 12.3% | 3.6% | 11.2% | 6/88 |
| Internal PERS 2500 | 55.5 | -2.1% | 9.6% | 12.5% | 3.7% | 10.3% | 12/91 |
| <i>PERS Wilshire 2500</i> | | -2.0% | 9.5% | 12.4% | 3.5% | 10.2% | |
| <i>Tracking Error</i> | | -0.1% | 0.1% | 0.1% | 0.2% | 0.1% | |
| Dynamic Completion Fund (DCF) | 5.6 | -2.1% | 8.2% | 9.7% | 2.2% | 4.6% | 9/98 |
| <i>Custom Benchmark</i> | | -2.2% | 8.4% | 9.7% | 1.9% | 4.0% | |
| <i>Tracking Error</i> | | 0.1% | -0.2% | 0.0% | 0.3% | 0.6% | |
| Domestic Enhanced Index Strategy | 3.7 | -2.2% | 11.6% | 15.4% | 5.3% | 6.4% | 3/01 |
| <i>PERS Wilshire 2500</i> | | -2.0% | 9.5% | 12.4% | 3.5% | 4.7% | |
| <i>Value Added</i> | | -0.2% | 2.1% | 3.0% | 1.8% | 1.7% | |
| Internal Domestic Fundamental | 1.0 | -.-% | -.-% | -.-% | -.-% | -.-% | 6/06 |
| <i>Custom Benchmark</i> | | -.-% | -.-% | -.-% | -.-% | -.-% | |
| <i>Tracking Error</i> | | -.-% | -.-% | -.-% | -.-% | -.-% | |
| Internal Microcap | 0.8 | -6.4% | 17.9% | -.-% | -.-% | 15.5% | 9/03 |
| <i>Custom Benchmark</i> | | -6.6% | 18.8% | -.-% | -.-% | 17.3% | |
| <i>Tracking Error</i> | | 0.2% | -0.9% | -.-% | -.-% | -1.8% | |
| Internal Domestic Equity Transition | 0.5 | -.-% | -.-% | -.-% | -.-% | -.-% | 3/06 |
| Total External Domestic Equity | 11.2 | -2.0% | 9.4% | 13.1% | 4.3% | 10.9% | 6/87 |
| Total Active External Mainstream | 2.5 | -2.1% | 9.1% | 12.7% | 3.4% | 4.4% | 6/98 |
| Total Domestic Ext. Enhanced | 6.8 | -1.8% | 9.4% | -.-% | -.-% | 10.9% | 9/04 |
| <i>Custom Benchmark</i> | | -1.9% | 9.2% | -.-% | -.-% | 9.4% | |
| <i>Value Added</i> | | 0.1% | 0.2% | -.-% | -.-% | 1.5% | |
| Total Domestic Equity MDP | 1.9 | -2.8% | 10.0% | 13.7% | 5.8% | 3.4% | 12/00 |
| Total Domestic Equity MDP Ventures | 0.0 | 182.4% | 345.8% | 105.2% | 49.7% | 46.9% | 3/01 |
| Environmental Domestic Equity | 0.3 | -2.6% | 4.7% | -.-% | -.-% | 6.4% | 3/05 |
| <i>Custom Benchmark</i> | | -1.7% | 9.0% | -.-% | -.-% | 9.2% | |
| <i>Value Added</i> | | -0.9% | -4.3% | -.-% | -.-% | -2.8% | |
| Domestic Equity Active Manager Program ¹⁶ | | | | | | | |
| Active External Managers + Enh + DCF | 14.9 | -2.0% | 8.8% | 11.5% | 2.9% | 3.9% | 6/98 |
| <i>PERS Wilshire 2500</i> | | -2.0% | 9.5% | 12.4% | 3.5% | 11.1% | |
| <i>Value Added of Active Mgr Program</i> | | 0.0% | -0.7% | -0.9% | -0.6% | -7.2% | |

* Composites may not add up exactly due to rounding. The US Equity Composite includes LM Capital which is a fixed income manager that has been allocated to the equity segment.

¹⁶ This composite combines components listed above to present a comparison of the total domestic equity active manager program versus its benchmark.



Total Equity Review - International Equity Manager Performance

| | <u>Market Value</u> | <u>Qtr</u> | <u>1 Year</u> | <u>3 Year</u> | <u>5 Year</u> | <u>Incept.</u> | <u>Date</u> |
|--|-------------------------|--------------|---------------|---------------|---------------|----------------|-------------|
| Non-US Equity Composite* | 45.4 | -1.0% | 27.1% | 24.1% | 9.7% | 7.2% | 6/89 |
| PERS SSgA Custom Index ¹⁷ | | 0.1% | 27.7% | 25.3% | 11.3% | 6.4% | |
| Value Added | | -1.1% | -0.6% | -1.2% | -1.6% | 0.8% | |
| Int'l Active Equity + MDP | 13.4 | 0.1% | 28.4% | 24.3% | 10.2% | 7.0% | 3/89 |
| Custom Benchmark | | 0.1% | 27.7% | 25.3% | 11.3% | 6.1% | |
| Value Added | | 0.0% | 0.7% | -1.0% | -1.1% | 0.9% | |
| Int'l Emerging Markets | 4.5 | -6.4% | 32.0% | 36.4% | -.-% | 36.6% | 9/02 |
| CalPERS FTSE All Emerging Index | | -5.3% | 33.0% | 33.9% | -.-% | 33.9% | |
| Value Added | | -1.1% | -1.0% | 2.5% | -.-% | 2.7% | |
| International Equity Transition | 0.5 | -.-% | -.-% | -.-% | -.-% | -.-% | 9/05 |
| Total Int'l MDP** | 0.4 | 0.9% | 21.7% | 21.0% | 8.6% | 2.8% | 6/00 |
| Total Int'l Ventures | 0.0 | 70.3% | 82.9% | 53.4% | 43.5% | 32.1% | 3/02 |
| Internal International Equity Index | 13.7 | 1.0% | 27.3% | -.-% | -.-% | 27.3% | 6/05 |
| Custom Benchmark | | 0.9% | 27.0% | -.-% | -.-% | 27.0% | |
| Tracking Error | | 0.1% | 0.3% | -.-% | -.-% | 0.3% | |
| Environmental International | 0.2 | 1.2% | -.-% | -.-% | -.-% | 1.2% | 3/06 |
| Custom Benchmark | | 0.9% | -.-% | -.-% | -.-% | 0.9% | |
| Value Added | | 0.3% | -.-% | -.-% | -.-% | 0.3% | |
| State Street Passive (Hedged) | 13.1 | -2.2% | 23.9% | 22.4% | 8.5% | 8.8% | 6/92 |
| State Street Passive (Unhedged) | | 1.0% | 27.2% | 24.4% | 10.8% | 6.2% | 6/89 |
| Custom Benchmark | | 0.9% | 27.0% | 24.3% | 10.6% | 7.1% | |
| Tracking Error | | 0.1% | 0.2% | 0.1% | 0.2% | -0.9% | |
| Currency Overlay ¹⁸ | | | | | | | |
| Pareto Partners | 5.0 | -3.1% | 24.1% | 21.1% | 6.0% | 9.2% | 6/92 |
| Custom Benchmark | | -4.0% | 4.5% | 11.4% | -1.4% | 7.2% | |
| Value Added | | 0.9% | 19.6% | 9.7% | 7.4% | 2.0% | |
| State Street London | 2.1 | -2.6% | 24.6% | 19.9% | 5.8% | 8.2% | 9/96 |
| Custom Benchmark | | -4.0% | 4.5% | 11.4% | -1.4% | 5.4% | |
| Value Added | | 1.4% | 20.1% | 8.5% | 7.2% | 2.8% | |
| Internal Currency Overlay | 3.2 | -3.4% | 25.8% | 20.8% | -.-% | 8.8% | 9/01 |
| Custom Benchmark | | -4.0% | 4.5% | 11.4% | -.-% | -1.4% | |
| Value Added | | 0.6% | 21.3% | 9.4% | -.-% | 10.2% | |

¹⁷ The PERS SSgA Custom Index currently represents the FTSE All World ex US Index. This Index is linked historically to its prior benchmarks.

¹⁸ The currency overlay portfolios' values are included in the State Street (Hedged) portfolio value.

* Composite may not add up exactly due to rounding.

** Total MDP market value is also included in the International Active Equity + MDP Composite.



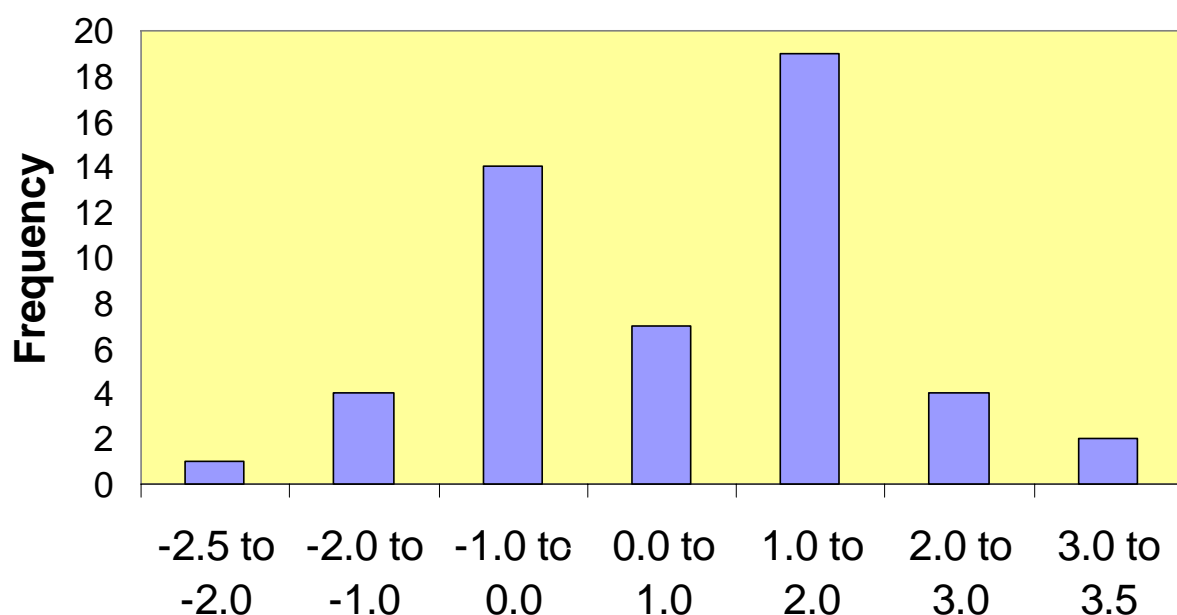
RM ARS Program Review Period Ended 6/30/06

| | <u>Market Value</u> | <u>Qtr</u> | <u>1 Year</u> | <u>3 Year</u> | <u>5 Year</u> | <u>Inception</u> <u>Info Ratio*</u> | <u>3-Year***</u> <u>Sharpe Ratio</u> | <u>3-Year**</u> <u>Sortino Ratio</u> |
|----------------------------|---------------------|------------|---------------|---------------|---------------|--|---|---|
| Total RM ARS Program | 2.8 | -0.7% | 11.4% | 9.8% | -.% | 0.1 | 1.4 | 2.0 |
| Policy Index ¹⁹ | | 2.1% | 8.0% | 9.6% | -.% | | | |
| Value Added | | -2.8% | 3.4% | 0.2% | -.% | | | |
| HFRI Fund of Funds Index | | -1.0% | 10.7% | 8.2% | -.% | | | |

RM ARS Program Characteristics Period Ended 6/30/06

| | <u>Since Inception Rolling Correlations vs. Index</u> | | | | | | |
|--------------------------------------|--|---------------------------------------|------------------------------------|--|---|--|--|
| <u>Characteristics as of 6/30/06</u> | <u>Percentage</u> <u>of positive</u> <u>Months</u> | <u>Beta vs.</u> <u>S&P 500</u> | <u>No. of</u> <u>Strategies</u> | <u>DJ</u> <u>W5000²⁰</u> | <u>PERS</u> <u>2500²⁰</u> | <u>Custom</u> <u>Benchmark²⁰</u> | <u>FTSE AW</u> <u>X US²⁰</u> |
| RM ARS Program | 66% | 0.4 | 8 | 0.5 | 0.5 | -0.1 | 0.6 |

CalPERS- RM ARS (net) Monthly Histogram April 2001 to June 2006



¹⁹ The RM ARS Policy consists of the Merrill Lynch 1-Year Treasury Note + 5% and is linked historically to its prior benchmark.

²⁰ DJ W5000 = Dow Jones Wilshire 5000 Index, PERS 2500 = CalPERS 2500 Index, Custom Benchmark =Citigroup LPF Index, FTSE AW X US = FTSE All World, Ex-United States Index.

* The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per risk ventured.

** The Sortino Ratio is measure of a risk-adjusted return of an investment asset. It is an extension of the Sharpe Ratio. While the Sharpe ratio takes into account any volatility, in return of an asset, Sortino ratio differentiates volatility due to up and down movements. The up movements are considered desirable and not accounted in the volatility.

*** The Sharpe ratio is a measure of risk-adjusted performance of an investment asset, or a trading strategy. The Sharpe ratio is used to characterize how well the return of an asset compensates the investor for the risk taken. When comparing two assets against the same benchmark, the asset with the higher Sharpe ratio gives more return for the same risk.



RM ARS Program Review

- ◆ **Beta vs. S&P 500:** This measures the amount of stock market risk in the portfolio. A beta of 1.0 would indicate that the portfolio's performance should closely track the stock market, while a beta higher than 1.0 implies greater-than-market risk and possibly leverage. The portfolio's beta is 0.4 which implies a semi-weak relationship to stock market return, which is appropriate for this program.
- ◆ **Correlation vs. various indices:** We have calculated the historical correlation between the RM ARS and CalPERS' other main asset classes. Over a market cycle, the RM ARS should function independently of the other asset classes and have a low correlation to directional movements in all other asset classes. Since inception, the performance of both the RM ARS and the stock market has been generally positive, resulting in a moderately high correlation.
- ◆ **Histogram:** The RM ARS is designed to generate small amounts of return on a consistent basis. This chart shows the frequency of monthly performance results. A significant number of outlying monthly performance returns would indicate insufficient risk controls. At this time, we believe that the distribution of monthly returns is as expected, given the youthfulness of the program, and has significantly more positive months than negative months, which is favorable.

Corporate Governance Review

| | <u>Market Value</u> | <u>Qtr</u> | <u>1 Year</u> | <u>3 Year</u> | <u>5 Year</u> | <u>Date</u> |
|--|-------------------------|--------------|---------------|---------------|---------------|--------------|
| Total Corporate Governance | 4.0 | -1.4% | 16.9% | 24.1% | 12.0% | 12/98 |
| <i>Policy Index</i> | | -3.0% | 19.9% | 18.2% | 7.6% | |
| <i>Value Added</i> | | 1.6% | -3.0% | 5.9% | 4.4% | |
| Total Domestic Corporate Governance | 1.8 | -4.1% | 2.9% | 20.5% | 12.2% | 12/98 |
| Total Int'l Corporate Governance | 2.2 | 1.1% | 30.4% | 26.8% | 11.5% | 12/98 |

- ◆ The System's total corporate governance program beat its objective and the domestic equity policy over the quarter but slightly lagged the total equity policy. The program benefited from its international exposure where the Hermes Focus fund produced favorable returns[^].

[^] A recalculation in one international corporate governance portfolio resulted in a variance in market value and performance from prior periods published reports.



Total Fixed Income Review

Periods Ended 6/30/06

Fixed Income Allocation

Asset Allocation: Actual versus Target Weights

| Asset Class | Actual Asset Allocation | Target Asset Allocation | Difference |
|---------------------|-------------------------|-------------------------|------------|
| US Fixed Income | 20.8% | 23.0% | -2.2% |
| Non US Fixed Income | 3.2 | 3.0 | 0.2 |

Fixed Income Segment Performance

| | Market Value | Qtr | 1 Year | 3 Year | 5 Year | 10 Year | 5-year Info Ratio** |
|---|--------------|--------------|--------------|-------------|-------------|-------------|---------------------|
| Total Fixed Income | 49.9 | 0.0% | -1.1% | 3.9% | 7.1% | 7.2% | 0.3 |
| Fixed Income Policy Index ²¹ | | -0.2% | -2.7% | 2.7% | 6.5% | 6.7% | |
| Value Added | | 0.2% | 1.6% | 1.2% | 0.6% | 0.5% | |
| U.S. Fixed Income | 43.3 | -0.4% | -1.2% | 3.6% | 6.5% | 7.4% | 0.2 |
| Policy Index ²² | | -0.7% | -3.1% | 2.3% | 6.0% | 7.0% | |
| Value Added | | 0.3% | 1.9% | 1.3% | 0.5% | 0.4% | |
| Non-U.S. Fixed Income | 6.6 | 3.3% | -0.2% | 5.3% | 9.8% | 5.2% | 0.4 |
| Policy Index ²³ | | 3.7% | 0.2% | 5.1% | 9.7% | 5.0% | |
| Value Added | | -0.4% | -0.4% | 0.2% | 0.1% | 0.2% | |

Comments Regarding Recent Fixed Income Segment Performance

Helped Performance:

- ◆ **International Fixed Income:** The System's external international bond segment, which is non-dollar denominated, outperformed versus the total fixed income policy for the quarter due to the strengthening of non-US currencies. The segment has outperformed its objective over all longer periods.
- ◆ **External High Yield Bonds:** The external high yield bond managers beat the fixed income policy index during the quarter. The segment has added value over the long term, led by the bank loan segment.
- ◆ **Internal High Yield Bonds:** CalPERS' internal high yield portfolio outperformed the fixed income policy index over the quarter, through rewarded credit selection. The portfolio has also outperformed over all longer time periods.

²¹ The Fixed Income Policy Index return equals the benchmark returns for domestic and international fixed income components weighted at policy allocation target percentages.

²² The Domestic Fixed Income Policy Index consists of the Lehman Long Liability Index and is linked historically to its prior benchmark.

²³ The Non-US Fixed Income Policy Index consists of the Lehman International Fixed Income and is linked historically to its prior benchmark.

** The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per risk ventured.



- ◆ **Special Investments:** The special investments beat the fixed income policy index over the quarter and the one-year and three-year period.
- ◆ **Mortgage Bonds:** CalPERS' mortgage portfolio performed well in the overall fixed income segment, beating the fixed income policy index. The portfolio has beaten the overall fixed income segment for the one-year and three-year period.

Impeded Performance:

- ◆ **Treasury Bonds:** Treasury bonds underperformed the fixed income policy index for the quarter, as the Fed increased short term interest rates. The portfolio also trailed the fixed income policy over longer periods.
- ◆ **Internal Sovereign Bonds:** The System's Sovereign portfolio, which holds non-US government bonds that are U.S. Dollar denominated, underperformed the total fixed income policy over the quarter, but has outperformed over longer time periods.

Fixed Income Performance

| | <u>Market Value</u> | <u>Qtr</u> | <u>1 Year</u> | <u>3 Year</u> | <u>5 Year</u> | <u>10 Year</u> |
|--|---------------------|--------------|---------------|---------------|---------------|----------------|
| Total Fixed Income* | 49.9 | 0.0% | -1.1% | 3.9% | 7.1% | 7.2% |
| <i>Fixed Income Policy Index</i> ²⁴ | | -0.2% | -2.7% | 2.7% | 6.5% | 6.7% |
| <i>Value Added</i> | | 0.2% | 1.6% | 1.2% | 0.6% | 0.5% |
| Total Internal Bonds | 41.2 | -0.6% | -2.0% | 3.1% | 6.3% | 7.4% |
| Treasury Bonds | 8.4 | -0.7% | -4.3% | 1.3% | 6.5% | 7.5% |
| Mortgage Bonds | 12.5 | 0.2% | 0.6% | 3.3% | 5.1% | 6.7% |
| Long Duration | 2.1 | 0.0% | -1.7% | -.% | -.% | -.% |
| Corporate Bonds | 10.2 | -1.2% | -1.3% | 5.3% | 7.6% | 8.0% |
| U.S. Government | 4.5 | -1.1% | -4.3% | -0.3% | 5.4% | -.% |
| Sovereign Bonds** | 0.9 | -1.5% | -3.6% | 3.1% | 9.0% | 9.0% |
| Duration/SEC Allocation | 3.0 | -1.4% | -75.7% | -.% | -.% | -.% |
| Duration Management | 0.5 | -.% | -.% | -.% | -.% | -.% |
| <i>Custom Benchmark***</i> | | -0.7% | -3.1% | 2.3% | 6.0% | 9.6% |
| Opportunistic ²⁵ | 2.2 | 2.6% | 22.2% | 22.1% | 13.9% | -.% |
| Internal High Yield Bonds | 0.8 | 0.1% | 24.0% | 20.9% | 16.5% | -.% |
| External High Yield | 1.3 | -0.1% | 7.1% | 11.4% | -.% | -.% |
| <i>Citigroup High Yield Cash Pay</i> | | 0.0% | 4.0% | 8.0% | -.% | -.% |
| Special Investments | 0.8 | 1.6% | 2.2% | 3.2% | 6.1% | 6.1% |
| External International Fixed Income | 6.6 | 3.3% | -0.2% | 5.3% | 9.8% | 5.2% |
| <i>Custom Benchmark</i> ²⁶ | | 3.7% | 0.2% | 5.1% | 9.7% | 5.0% |
| <i>Value Added</i> | | -0.4% | -0.4% | 0.2% | 0.1% | 0.2% |

²⁴ The Fixed Income Policy Index return equals the benchmark returns for domestic and international fixed income components weighted at policy allocation target percentages.

²⁵ Opportunistic includes internal and external high yield.

²⁶ The custom benchmark consists of the Lehman International Fixed Income and is linked historically to its prior benchmark.

* The total fixed income market value will not add up to the sum of the composites. Internal High Yield's market value is included in both the Total Internal Bonds and the Opportunistic Market Values.



Total Real Estate Review Period Ended 3/31/06

Real Estate Allocation

Asset Allocation: Actual versus Target Weights

| Asset Class | Actual Asset Allocation | Target Asset Allocation | Difference |
|-------------|-------------------------|-------------------------|------------|
| Real Estate | 7.2% | 8.0% | -0.8% |

Real Estate Segment Performance

| | Market Value | Qtr | 1 Year | 3 Year | 5 Year | 10 Year | 5-year Info Ratio** |
|---|--------------|-------------|--------------|--------------|--------------|--------------|---------------------|
| Total Real Estate ²⁷ | 15.0 | 4.5% | 32.1% | 24.8% | 17.6% | 15.1% | 1.4 |
| <i>NCREIF Property Index Lagged</i> ²⁸ | | 3.6% | 20.2% | 15.1% | 11.7% | 12.2% | |
| <i>TUCS Real Estate Median</i> | | 2.8% | 19.5% | 16.7% | 12.4% | 12.9% | |
| Total Core Real Estate | 8.6 | 6.2% | 33.8% | 24.9% | 18.2% | 15.8% | |
| Core Real Estate Private | 8.5 | 6.4% | 34.0% | 24.8% | 18.1% | 15.5% | |
| Core Real Estate Securities | 0.1 | -1.3% | 21.4% | 28.7% | 21.0% | -.-% | |
| Total Non-Core Real Estate | 6.4 | 3.0% | 28.3% | 25.2% | 15.8% | 13.5% | |

- ◆ CalPERS' real estate composite produced a return of 4.5% during the quarter, significantly outperforming the lagged NCREIF Property Index return of 3.6% and the TUCS real estate median return. Over the long term the composite has added value and outperformed both the NCREIF and the TUCS real estate median by a wide margin.

** The Internal Sovereign Bond market value is also included in the Internal Treasury Bond market value.

*** The custom benchmark consists of the Lehman Long Liability Index. Prior of 3Q 2004 the benchmark was Citigroup LPF.

²⁷ Real estate total returns are net of investment management fees and all expenses, including property level operations expenses netted from property income. This method differs from GASB 31, which requires all investment expenses be identified for inclusion in the System's general purpose financial statements.

²⁸ The performance of CalPERS' real estate segment is lagged one quarter. Therefore, the NCREIF Property Index is lagged one quarter as well to provide a better comparison.

** The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per risk ventured.



AIM Program Review Period Ended 3/31/06

AIM Program Allocation

Asset Allocation: Actual versus Target Weights

| Asset Class | Actual Asset Allocation | Target Asset Allocation | Difference |
|-------------|-------------------------|-------------------------|------------|
| AIM | 5.4% | 6.0% | -0.9% |

AIM Segment Performance

| | Market Value | Qtr | 1 Year | 3 Year | 5 Year | 10 Year | 5-year Info Ratio** |
|-----------------------------------|--------------|-------------|--------------|--------------|-------------|-------------|---------------------|
| AIM Program* | 11.3 | 5.1% | 19.1% | 18.1% | 6.2% | -.-% | 0.3 |
| <i>Policy Index ²⁹</i> | | 3.9% | 18.6% | 14.8% | 1.8% | -.-% | |
| <i>Value Added</i> | | 1.2% | 0.5% | 3.3% | 4.4% | -.-% | |
| <i>Long-Term Policy</i> | | | | | | 13.3% | |
| AIM Partnership Investments | 11.2 | 5.2% | 19.2% | 18.2% | 6.5% | 12.4% | |
| AIM Distribution Stock | 0.1 | 0.2% | 3.5% | 15.8% | 2.6% | -.-% | |

- ◆ The AIM program beat its objective over the quarter and has outperformed for all longer periods.

²⁹ The AIM Policy Index consists of the Custom Young Fund and is linked historically to its prior benchmark.

* The performance of CalPERS' AIM segment is lagged one quarter.

** The "Information Ratio" calculates the amount of excess performance earned per unit of excess risk, as measured by tracking error. Higher information ratios imply a greater return per risk ventured.



APPENDIX



External Manager Performance Review Domestic Equity - Core

| Active External Mainstream Mgrs | Market Value | Qtr | 1 Year | 3 Year | 5 Year | Incept. | Date |
|-----------------------------------|-----------------|-------|--------|--------|--------|---------|-------|
| | 2.5 | -2.1% | 9.1% | 12.7% | 3.4% | 4.4% | 6/98 |
| Domestic External Core | | | | | | | |
| Smith Asset Large Cap (MDP) | 0.2 | -2.0% | 15.4% | -.% | -.% | 12.4% | 12/03 |
| <i>Custom Benchmark</i> | | -1.4% | 8.6% | -.% | -.% | 7.4% | |
| <i>Value Added</i> | | -0.6% | 6.8% | -.% | -.% | 5.0% | |
| <i>Performance Objective</i> | | -0.9% | 10.6% | -.% | -.% | 9.4% | |
| <i>Value Added</i> | | -1.1% | 4.8% | -.% | -.% | 3.0% | |
| Golden Capital - Large Core (MDP) | 0.1 | -1.1% | 10.1% | 12.7% | 4.5% | 2.9% | 12/00 |
| <i>Custom Benchmark</i> | | -1.4% | 8.6% | 11.2% | 2.5% | 1.0% | |
| <i>Value Added</i> | | 0.3% | 1.5% | 1.5% | 2.0% | 1.9% | |
| <i>Performance Objective</i> | | -1.2% | 9.6% | 12.2% | 3.5% | 2.0% | |
| <i>Value Added</i> | | 0.1% | 0.5% | 0.5% | 1.0% | 0.9% | |
| Golden Capital - Small Core (MDP) | 0.1 | -3.5% | 15.1% | 20.4% | 12.5% | 11.7% | 12/00 |
| <i>Custom Benchmark</i> | | -4.6% | 13.9% | 20.5% | 11.1% | 11.2% | |
| <i>Value Added</i> | | 1.1% | 1.2% | -0.1% | 1.4% | 0.5% | |
| <i>Performance Objective</i> | | -4.3% | 14.9% | 21.5% | 12.1% | 12.2% | |
| <i>Value Added</i> | | 0.8% | 0.2% | -1.1% | 0.4% | -0.5% | |



External Manager Performance Review (continued)

Domestic Equity – Growth

| Active External Mgrs | Market Value 2.5 | Qtr -2.1% | 1 Year 9.1% | 3 Year 12.7% | 5 Year 3.4% | Incept. 4.4% | Date 6/98 |
|---------------------------------|------------------------|--------------|----------------|-----------------|----------------|-----------------|--------------|
| Domestic External Growth | | | | | | | |
| Smith Graham (MDP) | 0.1 | -4.6% | 3.2% | 7.7% | -.% | 10.1% | 9/02 |
| <i>Custom Benchmark</i> | | -3.9% | 6.1% | 10.0% | -.% | 13.6% | |
| <i>Value Added</i> | | -0.7% | -2.9% | -2.3% | -.% | -3.5% | |
| <i>Performance Objective</i> | | -3.5% | 7.6% | 11.5% | -.% | 15.1% | |
| <i>Value Added</i> | | -1.1% | -4.4% | -3.8% | -.% | -5.0% | |
| Geewax Terker | 0.5 | -4.9% | 7.6% | 9.3% | 0.1% | -0.5% | 6/98 |
| <i>Custom Benchmark</i> | | -3.5% | 5.6% | 7.7% | -0.9% | -0.7% | |
| <i>Value Added</i> | | -1.4% | 2.0% | 1.6% | 1.0% | 0.2% | |
| <i>Performance Objective</i> | | -3.2% | 6.8% | 9.0% | 0.3% | 0.6% | |
| <i>Value Added</i> | | -1.7% | 0.8% | 0.3% | -0.2% | -1.1% | |
| Stux (MDP) | 0.2 | -1.2% | 9.5% | -.% | -.% | 7.8% | 3/04 |
| <i>Custom Benchmark</i> | | -1.7% | 9.1% | -.% | -.% | 8.2% | |
| <i>Value Added</i> | | 0.5% | 0.4% | -.% | -.% | -0.4% | |
| <i>Performance Objective</i> | | -1.3% | 10.6% | -.% | -.% | 9.7% | |
| <i>Value Added</i> | | 0.1% | -1.1% | -.% | -.% | -1.9% | |
| Rigel - Large Growth (MDP) | 0.2 | -3.5% | 8.8% | -.% | -.% | 9.3% | 12/03 |
| <i>Custom Benchmark</i> | | -3.9% | 6.1% | -.% | -.% | 4.2% | |
| <i>Value Added</i> | | 0.4% | 2.7% | -.% | -.% | 5.1% | |
| <i>Performance Objective</i> | | -3.4% | 8.1% | -.% | -.% | 6.2% | |
| <i>Value Added</i> | | -0.1% | 0.7% | -.% | -.% | 3.1% | |
| Rigel - Small Mid Growth (MDP) | 0.1 | -3.5% | 13.8% | -.% | -.% | 11.8% | 12/03 |
| <i>Custom Benchmark</i> | | -6.1% | 14.6% | -.% | -.% | 11.1% | |
| <i>Value Added</i> | | 2.6% | -0.8% | -.% | -.% | 0.7% | |
| <i>Performance Objective</i> | | -5.5% | 17.1% | -.% | -.% | 13.6% | |
| <i>Value Added</i> | | 2.0% | -3.3% | -.% | -.% | -1.8% | |



External Manager Performance Review (continued)

Domestic Equity – Value

| Active External Mainstream Mgrs | Market Value 2.5 | Qtr -2.1% | 1 Year 9.1% | 3 Year 12.7% | 5 Year 3.4% | Incept. 4.4% | Date 6/98 |
|------------------------------------|------------------------|--------------|----------------|-----------------|----------------|-----------------|--------------|
| Domestic External Value | | | | | | | |
| Denali Advisors (MDP) | 0.2 | 0.0% | 12.5% | 17.9% | 6.6% | 6.6% | 6/01 |
| <i>Custom Benchmark</i> | | 0.1% | 12.5% | 15.9% | 6.9% | 6.9% | |
| <i>Value Added</i> | | -0.1% | 0.0% | 2.0% | -0.3% | -0.3% | |
| <i>Performance Objective</i> | | 0.6% | 14.5% | 17.9% | 8.9% | 8.9% | |
| <i>Value Added</i> | | -0.6% | -2.0% | 0.0% | -2.3% | -2.3% | |
| Golden Capital - Large Value (MDP) | 0.2 | -3.1% | 6.9% | 12.8% | 5.4% | 5.0% | 12/00 |
| <i>Custom Benchmark</i> | | -1.4% | 8.6% | 11.2% | 2.5% | 1.0% | |
| <i>Value Added</i> | | -1.7% | -1.7% | 1.6% | 2.9% | 4.0% | |
| <i>Performance Objective</i> | | -0.9% | 10.6% | 13.2% | 4.5% | 3.0% | |
| <i>Value Added</i> | | -2.2% | -3.7% | -0.4% | 0.9% | 2.0% | |
| Alliance Bernstein | 0.7 | 0.2% | 11.8% | 15.8% | 8.5% | 11.7% | 9/04 |
| <i>Custom Benchmark</i> | | -0.3% | 13.0% | 17.0% | 8.1% | 7.8% | |
| <i>Value Added</i> | | 0.5% | -1.2% | -1.2% | 0.4% | 3.9% | |
| <i>Performance Objective</i> | | 0.0% | 14.2% | 18.2% | 9.4% | 9.0% | |
| <i>Value Added</i> | | 0.2% | -2.4% | -2.4% | -0.9% | 2.7% | |
| The Boston Company | 0.7 | -0.3% | 15.5% | 18.1% | 8.2% | 8.1% | 6/98 |
| <i>Custom Benchmark</i> | | -1.0% | 12.0% | 16.0% | 7.5% | 7.1% | |
| <i>Value Added</i> | | 0.7% | 3.5% | 2.1% | 0.7% | 1.0% | |
| <i>Performance Objective</i> | | -0.7% | 13.2% | 17.2% | 8.7% | 8.4% | |
| <i>Value Added</i> | | 0.4% | 2.3% | 0.9% | -0.5% | -0.3% | |



External Manager Performance Review (continued)

Domestic Equity – Value cont'd

| Active External Mainstream Mgrs | Market Value 2.5 | Qtr -2.1% | 1 Year 9.1% | 3 Year 12.7% | 5 Year 3.4% | Incept. 4.4% | Date 6/98 |
|---------------------------------------|------------------------|--------------|----------------|-----------------|----------------|-----------------|--------------|
| Domestic External Value cont'd | | | | | | | |
| Pzena | 0.7 | -3.0% | 7.2% | 17.3% | 12.8% | 16.6% | 9/00 |
| <i>Custom Benchmark</i> | | -1.1% | 14.0% | 19.1% | 10.8% | 11.5% | |
| <i>Value Added</i> | | -1.9% | -6.8% | -1.8% | 2.0% | 5.1% | |
| <i>Performance Objective</i> | | -0.8% | 15.2% | 20.4% | 12.1% | 12.8% | |
| <i>Value Added</i> | | -2.2% | -8.0% | -3.1% | 0.7% | 3.8% | |
| Shenandoah (MDP) | 0.1 | -2.6% | 10.0% | 18.1% | 8.4% | 10.0% | 3/01 |
| <i>Custom Benchmark</i> | | -3.1% | 13.0% | 18.1% | 9.3% | 11.4% | |
| <i>Value Added</i> | | 0.5% | -3.0% | 0.0% | -0.9% | -1.4% | |
| <i>Performance Objective</i> | | -2.6% | 15.0% | 20.1% | 11.3% | 13.4% | |
| <i>Value Added</i> | | 0.0% | -5.0% | -2.0% | -2.9% | -3.4% | |
| Smith Asset Small Cap (MDP) | 0.1 | -6.2% | 10.7% | -.% | -.% | 14.1% | 12/03 |
| <i>Custom Benchmark</i> | | -5.0% | 14.6% | -.% | -.% | 12.4% | |
| <i>Value Added</i> | | -1.2% | -3.9% | -.% | -.% | 1.7% | |
| <i>Performance Objective</i> | | -4.4% | 17.1% | -.% | -.% | 14.9% | |
| <i>Value Added</i> | | -1.8% | -6.4% | -.% | -.% | -0.8% | |
| Timeless (MDP) | 0.1 | -4.7% | 9.2% | 13.0% | -.% | 17.1% | 9/02 |
| <i>Custom Benchmark</i> | | -5.0% | 14.6% | 18.7% | -.% | 21.8% | |
| <i>Value Added</i> | | 0.3% | -5.4% | -5.7% | -.% | -4.7% | |
| <i>Performance Objective</i> | | -4.4% | 17.1% | 21.2% | -.% | 24.3% | |
| <i>Value Added</i> | | -0.3% | -7.9% | -8.2% | -.% | -7.2% | |



External Manager Performance Review (continued)

Domestic Equity – Enhanced

| Total Domestic Ext. Enhanced | Market Value 6.8 | Qtr -1.8% | 1 Year 9.4% | 3 Year -.-% | 5 Year -.-% | Incept. 10.9% | Date 9/04 |
|-------------------------------------|---------------------------------|----------------------|------------------------|------------------------|------------------------|--------------------------|----------------------|
| Atlantic Asset Management | 0.3 | -1.5% | 7.7% | -.-% | -.-% | 4.3% | 12/04 |
| <i>Custom Benchmark</i> | | -1.4% | 8.6% | -.-% | -.-% | 5.1% | |
| <i>Value Added</i> | | -0.1% | -0.9% | -.-% | -.-% | -0.8% | |
| <i>Performance Objective</i> | | -1.2% | 9.6% | -.-% | -.-% | 6.1% | |
| <i>Value Added</i> | | -0.3% | -1.9% | -.-% | -.-% | -1.8% | |
| Barclays Global Investors | 1.1 | -0.9% | -.-% | -.-% | -.-% | 7.8% | 6/05 |
| <i>Custom Benchmark</i> | | -1.8% | -.-% | -.-% | -.-% | 4.7% | |
| <i>Value Added</i> | | 0.9% | -.-% | -.-% | -.-% | 3.1% | |
| <i>Performance Objective</i> | | -1.5% | -.-% | -.-% | -.-% | 5.5% | |
| <i>Value Added</i> | | 0.6% | -.-% | -.-% | -.-% | 2.3% | |
| Franklin Portfolio Associates | 0.9 | -0.9% | 9.8% | -.-% | -.-% | 11.1% | 9/04 |
| <i>Custom Benchmark</i> | | -1.8% | 8.7% | -.-% | -.-% | 10.4% | |
| <i>Value Added</i> | | 0.9% | 1.1% | -.-% | -.-% | 0.7% | |
| <i>Performance Objective</i> | | -1.5% | 9.7% | -.-% | -.-% | 11.4% | |
| <i>Value Added</i> | | 0.6% | 0.1% | -.-% | -.-% | -0.3% | |
| Goldman Sachs Enhanced | 0.5 | -5.8% | 12.1% | -.-% | -.-% | 13.0% | 3/05 |
| <i>Custom Benchmark</i> | | -5.4% | 14.8% | -.-% | -.-% | 14.9% | |
| <i>Value Added</i> | | -0.4% | -2.7% | -.-% | -.-% | -1.9% | |
| <i>Performance Objective</i> | | -4.9% | 16.6% | -.-% | -.-% | 16.7% | |
| <i>Value Added</i> | | -0.9% | -4.5% | -.-% | -.-% | -3.7% | |
| INTECH | 1.3 | -2.3% | 7.9% | -.-% | -.-% | 11.6% | 9/04 |
| <i>Custom Benchmark</i> | | -1.8% | 8.7% | -.-% | -.-% | 10.4% | |
| <i>Value Added</i> | | -0.5% | -0.8% | -.-% | -.-% | 1.2% | |
| <i>Performance Objective</i> | | -1.5% | 9.7% | -.-% | -.-% | 11.4% | |
| <i>Value Added</i> | | -0.8% | -1.8% | -.-% | -.-% | 0.2% | |
| Quantitative Management Associates | 0.9 | -1.6% | 8.6% | -.-% | -.-% | 10.5% | 9/04 |
| <i>Custom Benchmark</i> | | -1.5% | 8.4% | -.-% | -.-% | 9.4% | |
| <i>Value Added</i> | | -0.1% | 0.2% | -.-% | -.-% | 1.1% | |
| <i>Performance Objective</i> | | -1.3% | 9.4% | -.-% | -.-% | 10.4% | |
| <i>Value Added</i> | | -0.3% | -0.8% | -.-% | -.-% | 0.1% | |
| Smith Breeden | 0.6 | -1.4% | 8.7% | -.-% | -.-% | 5.2% | 12/04 |
| <i>Custom Benchmark</i> | | -1.4% | 8.6% | -.-% | -.-% | 5.1% | |
| <i>Value Added</i> | | 0.0% | 0.1% | -.-% | -.-% | 0.1% | |
| <i>Performance Objective</i> | | -1.2% | 9.6% | -.-% | -.-% | 6.1% | |
| <i>Value Added</i> | | -0.2% | -0.9% | -.-% | -.-% | -0.9% | |



External Manager Performance Review (continued)
Domestic Equity – Enhanced cont'd

| | Market Value | <u>Qtr</u> | <u>1 Year</u> | <u>3 Year</u> | <u>5 Year</u> | <u>Incept.</u> | <u>Date</u> |
|-------------------------------------|-------------------------|-------------------|----------------------|----------------------|----------------------|-----------------------|--------------------|
| Total Domestic Ext. Enhanced | 6.8 | -1.8% | 9.4% | -.-% | -.-% | 10.9% | 9/04 |
| T. Rowe Price | 0.6 | -1.7% | -.-% | -.-% | -.-% | -1.7% | 3/06 |
| <i>Custom Benchmark</i> | | -1.5% | -.-% | -.-% | -.-% | -1.5% | |
| <i>Value Added</i> | | -0.2% | -.-% | -.-% | -.-% | -0.2% | |
| <i>Performance Objective</i> | | -1.2% | -.-% | -.-% | -.-% | -1.2% | |
| <i>Value Added</i> | | -0.5% | -.-% | -.-% | -.-% | -0.5% | |
| WAMCO | 0.6 | -1.5% | 8.7% | -.-% | -.-% | 9.8% | 9/04 |
| <i>Custom Benchmark</i> | | -1.4% | 8.6% | -.-% | -.-% | 9.8% | |
| <i>Value Added</i> | | -0.1% | 0.1% | -.-% | -.-% | 0.0% | |
| <i>Performance Objective</i> | | -1.2% | 9.6% | -.-% | -.-% | 10.8% | |
| <i>Value Added</i> | | -0.3% | -0.9% | -.-% | -.-% | -1.0% | |



External Manager Performance Review (continued)

Domestic Equity – MDP ²⁹

| | Market Value | Qtr | 1 Year | 3 Year | 5 Year | Incept. | Date |
|------------------------------------|-------------------------|---------------|---------------|---------------|---------------|----------------|--------------|
| Total Domestic MDP | 1.9 | -2.8% | 10.0% | 13.7% | 5.8% | 3.4% | 12/00 |
| Total Domestic MDP Ventures | 0.0 | 182.4% | 345.8% | 105.2% | 49.7% | 46.9% | 3/01 |
| Golden Capital - Large Core (MDP) | 0.1 | -1.1% | 10.1% | 12.7% | 4.5% | 2.9% | 12/00 |
| <i>Custom Benchmark</i> | | -1.4% | 8.6% | 11.2% | 2.5% | 1.0% | |
| <i>Value Added</i> | | 0.3% | 1.5% | 1.5% | 2.0% | 1.9% | |
| <i>Performance Objective</i> | | -1.2% | 9.6% | 12.2% | 3.5% | 2.0% | |
| <i>Value Added</i> | | 0.1% | 0.5% | 0.5% | 1.0% | 0.9% | |
| Golden Capital - Small Core (MDP) | 0.1 | -3.5% | 15.1% | 20.4% | 12.5% | 11.7% | 12/00 |
| <i>Custom Benchmark</i> | | -4.6% | 13.9% | 20.5% | 11.1% | 11.2% | |
| <i>Value Added</i> | | 1.1% | 1.2% | -0.1% | 1.4% | 0.5% | |
| <i>Performance Objective</i> | | -4.3% | 14.9% | 21.5% | 12.1% | 12.2% | |
| <i>Value Added</i> | | 0.8% | 0.2% | -1.1% | 0.4% | -0.5% | |
| Rigel - Large Growth (MDP) | 0.2 | -3.5% | 8.8% | -.% | -.% | 9.3% | 12/03 |
| <i>Custom Benchmark</i> | | -3.9% | 6.1% | -.% | -.% | 4.2% | |
| <i>Value Added</i> | | 0.4% | 2.7% | -.% | -.% | 5.1% | |
| <i>Performance Objective</i> | | -3.4% | 8.1% | -.% | -.% | 6.2% | |
| <i>Value Added</i> | | -0.1% | 0.7% | -.% | -.% | 3.1% | |
| Smith Graham (MDP) | 0.1 | -4.6% | 3.2% | 7.7% | -.% | 10.1% | 9/02 |
| <i>Custom Benchmark</i> | | -3.9% | 6.1% | 10.0% | -.% | 13.6% | |
| <i>Value Added</i> | | -0.7% | -2.9% | -2.3% | -.% | -3.5% | |
| <i>Performance Objective</i> | | -3.5% | 7.6% | 11.5% | -.% | 15.1% | |
| <i>Value Added</i> | | -1.1% | -4.4% | -3.8% | -.% | -5.0% | |
| Stux (MDP) | 0.2 | -1.2% | 9.5% | -.% | -.% | 7.8% | 3/04 |
| <i>Custom Benchmark</i> | | -1.7% | 9.1% | -.% | -.% | 8.2% | |
| <i>Value Added</i> | | 0.5% | 0.4% | -.% | -.% | -0.4% | |
| <i>Performance Objective</i> | | -1.3% | 10.6% | -.% | -.% | 9.7% | |
| <i>Value Added</i> | | 0.1% | -1.1% | -.% | -.% | -1.9% | |
| Rigel - Small Mid Growth (MDP) | 0.1 | -3.5% | 13.8% | -.% | -.% | 11.8% | 12/03 |
| <i>Custom Benchmark</i> | | -6.1% | 14.6% | -.% | -.% | 11.1% | |
| <i>Value Added</i> | | 2.6% | -0.8% | -.% | -.% | 0.7% | |
| <i>Performance Objective</i> | | -5.5% | 17.1% | -.% | -.% | 13.6% | |
| <i>Value Added</i> | | 2.0% | -3.3% | -.% | -.% | -1.8% | |

²⁹ The MDP managers are listed by style elsewhere in this appendix.



External Manager Performance Review (continued)

Domestic Equity – MDP cont'd³¹

| | Market Value | Qtr | 1 Year | 3 Year | 5 Year | Incept. | Date |
|------------------------------------|-------------------------|---------------|---------------|---------------|---------------|----------------|--------------|
| Total Domestic MDP | 1.9 | -2.8% | 10.0% | 13.7% | 5.8% | 3.4% | 12/00 |
| Total Domestic MDP Ventures | 0.0 | 182.4% | 345.8% | 105.2% | 49.7% | 46.9% | 3/01 |
| Denali Advisors (MDP) | 0.2 | 0.0% | 12.5% | 17.9% | 6.6% | 6.6% | 6/01 |
| <i>Custom Benchmark</i> | | 0.1% | 12.5% | 15.9% | 6.9% | 6.9% | |
| <i>Value Added</i> | | -0.1% | 0.0% | 2.0% | -0.3% | -0.3% | |
| <i>Performance Objective</i> | | 0.6% | 14.5% | 17.9% | 8.9% | 8.9% | |
| <i>Value Added</i> | | -0.6% | -2.0% | 0.0% | -2.3% | -2.3% | |
| Golden Capital - Large Value (MDP) | 0.2 | -3.1% | 6.9% | 12.8% | 5.4% | 5.0% | 12/00 |
| <i>Custom Benchmark</i> | | -1.4% | 8.6% | 11.2% | 2.5% | 1.0% | |
| <i>Value Added</i> | | -1.7% | -1.7% | 1.6% | 2.9% | 4.0% | |
| <i>Performance Objective</i> | | -0.9% | 10.6% | 13.2% | 4.5% | 3.0% | |
| <i>Value Added</i> | | -2.2% | -3.7% | -0.4% | 0.9% | 2.0% | |
| Shenandoah (MDP) | 0.1 | -2.6% | 10.0% | 18.1% | 8.4% | 10.0% | 3/01 |
| <i>Custom Benchmark</i> | | -3.1% | 13.0% | 18.1% | 9.3% | 11.4% | |
| <i>Value Added</i> | | 0.5% | -3.0% | 0.0% | -0.9% | -1.4% | |
| <i>Performance Objective</i> | | -2.6% | 15.0% | 20.1% | 11.3% | 13.4% | |
| <i>Value Added</i> | | 0.0% | -5.0% | -2.0% | -2.9% | -3.4% | |
| Shenandoah SMID (MDP) | 0.0 | -4.5% | -.% | -.% | -.% | 3.5% | 12/05 |
| <i>Custom Benchmark</i> | | -4.6% | -.% | -.% | -.% | -0.5% | |
| <i>Value Added</i> | | 0.1% | -.% | -.% | -.% | 4.0% | |
| <i>Performance Objective</i> | | -3.9% | -.% | -.% | -.% | 0.8% | |
| <i>Value Added</i> | | -0.6% | -.% | -.% | -.% | 2.7% | |
| Smith Asset Small Cap (MDP) | 0.1 | -6.2% | 10.7% | -.% | -.% | 14.1% | 12/03 |
| <i>Custom Benchmark</i> | | -5.0% | 14.6% | -.% | -.% | 12.4% | |
| <i>Value Added</i> | | -1.2% | -3.9% | -.% | -.% | 1.7% | |
| <i>Performance Objective</i> | | -4.4% | 17.1% | -.% | -.% | 14.9% | |
| <i>Value Added</i> | | -1.8% | -6.4% | -.% | -.% | -0.8% | |
| Timeless (MDP) | 0.1 | -4.7% | 9.2% | 13.0% | -.% | 17.1% | 9/02 |
| <i>Custom Benchmark</i> | | -5.0% | 14.6% | 18.7% | -.% | 21.8% | |
| <i>Value Added</i> | | 0.3% | -5.4% | -5.7% | -.% | -4.7% | |
| <i>Performance Objective</i> | | -4.4% | 17.1% | 21.2% | -.% | 24.3% | |
| <i>Value Added</i> | | -0.3% | -7.9% | -8.2% | -.% | -7.2% | |

³¹ The MDP managers are listed by style elsewhere in this appendix.



External Manager Performance Review (continued)

Domestic Equity – Corporate Governance

| | Market Value | <u>Qtr</u> | <u>1 Year</u> | <u>3 Year</u> | <u>5 Year</u> | <u>Date</u> |
|--|---------------------|-------------------|----------------------|----------------------|----------------------|--------------------|
| Total Domestic Corporate Governance | 1.8 | -4.1% | 2.9% | 20.5% | 12.2% | 12/98 |
| Breeden Partners | 0.1 | -.% | -.% | -.% | -.% | 6/06 |
| <i>Custom Benchmark</i> | | -.% | -.% | -.% | -.% | |
| <i>Value Added</i> | | -.% | -.% | -.% | -.% | |
| Internal Relational | 0.4 | -4.8% | 1.8% | 27.0% | -.% | 12/02 |
| <i>Custom Benchmark</i> | | -2.0% | 9.5% | 12.4% | -.% | |
| <i>Value Added</i> | | -2.8% | -7.7% | 14.6% | -.% | |
| New Mountain Capital | 0.2 | -0.1% | -.% | -.% | -.% | 12/05 |
| <i>Custom Benchmark</i> | | -1.4% | -.% | -.% | -.% | |
| <i>Value Added</i> | | 1.3% | -.% | -.% | -.% | |
| Relational Investors | 1.2 | -4.8% | 0.7% | 19.3% | 11.2% | 12/98 |
| <i>Custom Benchmark</i> | | -1.4% | 8.6% | 11.2% | 2.5% | |
| <i>Value Added</i> | | -3.4% | -7.9% | 8.1% | 8.7% | |
| Shamrock Partners | 0.1 | -17.0% | 15.2% | -.% | -.% | 3/05 |
| <i>Custom Benchmark</i> | | -5.0% | 14.6% | -.% | -.% | |
| <i>Value Added</i> | | -12.0% | 0.6% | -.% | -.% | |
| Blum Strategic Partners III | 0.1 | -5.1% | -.% | -.% | -.% | 9/05 |
| <i>Custom Benchmark</i> | | 1.9% | -.% | -.% | -.% | |
| <i>Value Added</i> | | -7.0% | -.% | -.% | -.% | |

RM ARS–Fund of Funds

| | Market Value | <u>Qtr</u> | <u>1 Year</u> | <u>3 Year</u> | <u>5 Year</u> |
|---------------------------------|---------------------|-------------------|----------------------|----------------------|----------------------|
| Total RM ARS Program | 2.8 | -0.7% | 11.4% | 9.8% | -.% |
| Ermitage European Fund of Funds | 0.1 | -.% | -.% | -.% | -.% |
| KBC Asian Fund of Funds | 0.1 | -0.2% | -.% | -.% | -.% |
| SPARX Asian Fund of Funds | 0.1 | -2.2% | -.% | -.% | -.% |
| Vision Asian Fund of Funds | 0.1 | -1.4% | -.% | -.% | -.% |



External Manager Performance Review (continued)

Domestic Equity – Environmental

| | Market Value | Qtr | 1 Year | 3 Year | 5 Year | Incept. | Date |
|----------------------------|-----------------|--------------|-------------|-------------|-------------|-------------|-------------|
| Total Environmental | 0.3 | -2.6% | 4.7% | -.-% | -.-% | 6.4% | 3/05 |
| Barclays Ishares KLD | 0.1 | -2.2% | 6.2% | -.-% | -.-% | 6.2% | 3/05 |
| Custom Benchmark | | 4.5% | 13.6% | -.-% | -.-% | 13.6% | |
| Value Added | | -6.7% | -7.4% | -.-% | -.-% | -7.4% | |
| New Amsterdam Partners | 0.1 | -2.7% | -.-% | -.-% | -.-% | -2.7% | 3/06 |
| Custom Benchmark | | -1.8% | -.-% | -.-% | -.-% | -1.8% | |
| Value Added | | -0.9% | -.-% | -.-% | -.-% | -0.9% | |
| SSgA Environmental | 0.1 | -.-% | -.-% | -.-% | -.-% | -.-% | 6/06 |
| Custom Benchmark | | -.-% | -.-% | -.-% | -.-% | -.-% | |
| Value Added | | -.-% | -.-% | -.-% | -.-% | -.-% | |
| AXARosenberg | 0.1 | -2.6% | -.-% | -.-% | -.-% | -2.6% | 3/06 |
| Custom Benchmark | | -1.8% | -.-% | -.-% | -.-% | -1.8% | |
| Value Added | | -0.8% | -.-% | -.-% | -.-% | -0.8% | |



External Manager Performance Review (continued)

International Equity – Core ACWI

| | <u>Market Value</u> | <u>Qtr</u> | <u>1 Year</u> | <u>3 Year</u> | <u>5 Year</u> | <u>Incept.</u> | <u>Date</u> |
|--------------------------------|-------------------------|--------------|---------------|---------------|---------------|----------------|-------------|
| Int'l Active Mainstream | 9.0 | -0.1% | 29.4% | 24.7% | 10.4% | 7.5% | 6/89 |
| Int'l External Core | | | | | | | |
| Arrowstreet (Mainstream) | 0.9 | -1.2% | 29.1% | 26.7% | -.% | 30.2% | 3/03 |
| Custom Benchmark | | 0.1% | 27.7% | 25.3% | -.% | 30.2% | |
| Value Added | | -1.3% | 1.4% | 1.4% | -.% | 0.0% | |
| Performance Objective | | 0.6% | 29.7% | 27.3% | -.% | 32.2% | |
| Value Added | | -1.8% | -0.6% | -0.6% | -.% | -2.0% | |
| Arrowstreet (MDP) | 0.2 | -1.3% | 28.7% | 26.7% | 13.3% | 7.2% | 6/00 |
| Custom Benchmark | | 0.1% | 27.7% | 25.3% | 11.3% | 4.5% | |
| Value Added | | -1.4% | 1.0% | 1.4% | 2.0% | 2.7% | |
| Performance Objective | | 0.6% | 29.7% | 27.3% | 13.3% | 6.5% | |
| Value Added | | -1.9% | -1.0% | -0.6% | 0.0% | 0.7% | |
| Barclays | 1.2 | 1.3% | -.% | -.% | -.% | 15.5% | 9/05 |
| Custom Benchmark | | 0.9% | -.% | -.% | -.% | 14.8% | |
| Value Added | | 0.4% | -.% | -.% | -.% | 0.7% | |
| Performance Objective | | 1.3% | -.% | -.% | -.% | 15.9% | |
| Value Added | | 0.0% | -.% | -.% | -.% | -0.4% | |
| Robeco USA | 0.5 | -0.2% | 30.4% | 25.1% | -.% | 14.7% | 9/01 |
| Custom Benchmark | | 0.1% | 27.7% | 25.3% | -.% | 15.8% | |
| Value Added | | -0.3% | 2.7% | -0.2% | -.% | -1.1% | |
| Performance Objective | | 0.6% | 29.7% | 27.3% | -.% | 17.8% | |
| Value Added | | -0.8% | 0.7% | -2.2% | -.% | -3.1% | |
| Acadian Asset Management | 1.1 | 0.2% | -.% | -.% | -.% | 10.5% | 12/05 |
| Custom Benchmark | | 0.1% | -.% | -.% | -.% | 9.7% | |
| Value Added | | 0.1% | -.% | -.% | -.% | 0.8% | |
| Performance Objective | | 0.6% | -.% | -.% | -.% | 10.7% | |
| Value Added | | -0.4% | -.% | -.% | -.% | -0.2% | |
| AQR Capital Management | 1.0 | -0.9% | -.% | -.% | -.% | 9.0% | 12/05 |
| Custom Benchmark | | 0.9% | -.% | -.% | -.% | 10.5% | |
| Value Added | | -1.8% | -.% | -.% | -.% | -1.5% | |
| Performance Objective | | 1.4% | -.% | -.% | -.% | 11.5% | |
| Value Added | | -2.3% | -.% | -.% | -.% | -2.5% | |
| QMA International | 0.8 | 0.9% | -.% | -.% | -.% | 0.9% | 3/06 |
| Custom Benchmark | | 0.9% | -.% | -.% | -.% | 0.9% | |
| Value Added | | 0.0% | -.% | -.% | -.% | 0.0% | |
| Performance Objective | | 0.3% | -.% | -.% | -.% | 0.3% | |
| Value Added | | 0.6% | -.% | -.% | -.% | 0.6% | |
| Baring Int'l Investments | 0.9 | 0.3% | -.% | -.% | -.% | 10.1% | 12/05 |
| Custom Benchmark | | 0.9% | -.% | -.% | -.% | 10.5% | |
| Value Added | | -0.6% | -.% | -.% | -.% | -0.4% | |
| Performance Objective | | 1.3% | -.% | -.% | -.% | 11.3% | |
| Value Added | | -1.0% | -.% | -.% | -.% | -1.2% | |



External Manager Performance Review (continued)

International Equity – Core Europe

| | Market Value | Qtr | 1 Year | 3 Year | 5 Year | Incept. | Date |
|-----------------------------------|-------------------------|--------------|---------------|---------------|---------------|----------------|-------------|
| Int'l Active Mainstream | 9.0 | -0.1% | 29.4% | 24.7% | 10.4% | 7.5% | 6/89 |
| Int'l External Core Europe | | | | | | | |
| AXA Rosenberg | 1.2 | 2.0% | 30.0% | 26.1% | 12.5% | 11.6% | 3/01 |
| Custom Benchmark | | 2.3% | 25.2% | 23.6% | 10.7% | 9.8% | |
| Value Added | | -0.3% | 4.8% | 2.5% | 1.8% | 1.8% | |
| Performance Objective | | 2.8% | 27.2% | 25.6% | 12.7% | 11.8% | |
| Value Added | | -0.8% | 2.8% | 0.5% | -0.2% | -0.2% | |
| Capital Guardian | 0.6 | 2.3% | 25.0% | 22.8% | 10.7% | 9.9% | 3/01 |
| Custom Benchmark | | 2.3% | 25.2% | 23.6% | 10.7% | 9.8% | |
| Value Added | | 0.0% | -0.2% | -0.8% | 0.0% | 0.1% | |
| Performance Objective | | 2.8% | 27.2% | 25.6% | 12.7% | 11.8% | |
| Value Added | | -0.5% | -2.2% | -2.8% | -2.0% | -1.9% | |

International Equity – Environmental

| | Market Value | Qtr | 1 Year | 3 Year | 5 Year | Incept. | Date |
|----------------------------|-------------------------|------------|---------------|---------------|---------------|----------------|-------------|
| Int'l Environmental | 0.2 | -.% | -.% | -.% | -.% | -.% | 6/06 |
| Int'l Environmental | | | | | | | |
| SSgA Environmental | 0.1 | 2.6% | -.% | -.% | -.% | 2.6% | 3/06 |
| Custom Benchmark | | 0.9% | -.% | -.% | -.% | 0.9% | |
| Value Added | | 1.7% | -.% | -.% | -.% | 1.7% | |
| Brandywine | 0.1 | -.% | -.% | -.% | -.% | -.% | 6/06 |
| Custom Benchmark | | -.% | -.% | -.% | -.% | -.% | |
| Value Added | | -.% | -.% | -.% | -.% | -.% | |



External Manager Performance Review (continued)

International Equity – Growth & Value

| | Market Value | Qtr | 1 Year | 3 Year | 5 Year | Incept. | Date |
|---------------------------------|-------------------------|--------------|---------------|---------------|---------------|----------------|-------------|
| Int'l Active Mainstream | 9.0 | -0.1% | 29.4% | 24.7% | 10.4% | 7.5% | 6/89 |
| Int'l External Growth | | | | | | | |
| Alliance Large Cap Growth | 0.5 | -2.3% | -.-% | -.-% | -.-% | 12.2% | 9/05 |
| <i>Custom Benchmark</i> | | 0.1% | -.-% | -.-% | -.-% | 14.6% | |
| <i>Value Added</i> | | -2.4% | -.-% | -.-% | -.-% | -2.4% | |
| <i>Performance Objective</i> | | 0.6% | -.-% | -.-% | -.-% | 16.1% | |
| <i>Value Added</i> | | -2.9% | -.-% | -.-% | -.-% | -3.9% | |
| New Star Institutional Managers | 0.6 | 0.3% | -.-% | -.-% | -.-% | 11.6% | 9/05 |
| <i>Custom Benchmark</i> | | 0.1% | -.-% | -.-% | -.-% | 14.6% | |
| <i>Value Added</i> | | 0.2% | -.-% | -.-% | -.-% | -3.0% | |
| <i>Performance Objective</i> | | 0.6% | -.-% | -.-% | -.-% | 16.1% | |
| <i>Value Added</i> | | -0.3% | -.-% | -.-% | -.-% | -4.5% | |
| Baillie Gifford | 1.0 | 0.0% | 35.1% | 27.1% | 12.1% | 12.1% | 6/01 |
| <i>Custom Benchmark</i> | | 0.1% | 27.7% | 25.3% | 11.3% | 11.3% | |
| <i>Value Added</i> | | -0.1% | 7.4% | 1.8% | 0.8% | 0.8% | |
| <i>Performance Objective</i> | | 0.6% | 29.7% | 27.3% | 13.3% | 13.3% | |
| <i>Value Added</i> | | -0.6% | 5.4% | -0.2% | -1.2% | -1.2% | |



External Manager Performance Review (continued)

International Equity – Growth & Value cont'd

| Int'l Active Mainstream | Market Value 9.0 | Qtr -0.1% | 1 Year 29.4% | 3 Year 24.7% | 5 Year 10.4% | Incept. 7.5% | Date 6/89 |
|-------------------------------------|---------------------------------|----------------------|-------------------------|-------------------------|-------------------------|-------------------------|----------------------|
| Int'l External Value ACWI | | | | | | | |
| Grantham, Mayo, Van Otterloo | 0.9 | 0.5% | 26.6% | 25.2% | 14.8% | 14.8% | 6/01 |
| Custom Benchmark | | 0.1% | 27.7% | 25.3% | 11.3% | 11.3% | |
| Value Added | | 0.4% | -1.1% | -0.1% | 3.5% | 3.5% | |
| Performance Objective | | 0.7% | 30.1% | 27.7% | 13.8% | 13.8% | |
| Value Added | | -0.2% | -3.5% | -2.5% | 1.0% | 1.0% | |
| Northroad (MDP) | 0.1 | 2.2% | 22.7% | -.% | -.% | 14.4% | 12/03 |
| Custom Benchmark | | 0.9% | 27.0% | -.% | -.% | 18.6% | |
| Value Added | | 1.3% | -4.3% | -.% | -.% | -4.2% | |
| Performance Objective | | 1.4% | 29.0% | -.% | -.% | 20.6% | |
| Value Added | | 0.8% | -6.3% | -.% | -.% | -6.2% | |
| Pyrford (MDP) | 0.1 | 2.2% | 17.3% | 20.3% | -.% | 11.5% | 12/01 |
| Custom Benchmark | | 0.9% | 27.0% | 24.6% | -.% | 14.4% | |
| Value Added | | 1.3% | -9.7% | -4.3% | -.% | -2.9% | |
| Performance Objective | | 1.4% | 29.0% | 26.6% | -.% | 16.4% | |
| Value Added | | 0.8% | -11.7% | -6.3% | -.% | -4.9% | |
| Alliance Strategic Value | 0.6 | 0.4% | -.% | -.% | -.% | 20.3% | 9/05 |
| Custom Benchmark | | 0.1% | -.% | -.% | -.% | 14.6% | |
| Value Added | | 0.3% | -.% | -.% | -.% | 5.7% | |
| Performance Objective | | 0.6% | -.% | -.% | -.% | 16.1% | |
| Value Added | | -0.2% | -.% | -.% | -.% | 4.2% | |
| Int'l External Value Pacific | | | | | | | |
| Nomura | 1.1 | -2.6% | 30.6% | 26.2% | 12.6% | 5.1% | 9/89 |
| Custom Benchmark | | -2.5% | 29.2% | 26.0% | 10.3% | 0.8% | |
| Value Added | | -0.1% | 1.4% | 0.2% | 2.3% | 4.3% | |
| Performance Objective | | -2.0% | 31.2% | 28.0% | 12.3% | 2.8% | |
| Value Added | | -0.6% | -0.6% | -1.8% | 0.3% | 2.3% | |



External Manager Performance Review (continued)
International Equity – MDP³²

| | Market Value | Qtr | 1 Year | 3 Year | 5 Year | Incept. | Date |
|---------------------------------|-------------------------|--------------|---------------|---------------|---------------|----------------|-------------|
| Total Int'l MDP | 0.4 | 0.9% | 21.7% | 21.0% | 8.6% | 2.8% | 6/00 |
| Total Int'l MDP Ventures | 0.0 | 70.3% | 82.9% | 53.4% | 43.5% | 32.1% | 6/00 |
| Arrowstreet (MDP) | 0.2 | -1.3% | 28.7% | 26.7% | 13.3% | 7.2% | 6/00 |
| <i>Custom Benchmark</i> | | 0.1% | 27.7% | 25.3% | 11.3% | 4.5% | |
| <i>Value Added</i> | | -1.4% | 1.0% | 1.4% | 2.0% | 2.7% | |
| <i>Performance Objective</i> | | 0.6% | 29.7% | 27.3% | 13.3% | 6.5% | |
| <i>Value Added</i> | | -1.9% | -1.0% | -0.6% | 0.0% | 0.7% | |
| Northroad (MDP) | 0.1 | 2.2% | 22.7% | -.-% | -.-% | 14.4% | 12/03 |
| <i>Custom Benchmark</i> | | 0.9% | 27.0% | -.-% | -.-% | 18.6% | |
| <i>Value Added</i> | | 1.3% | -4.3% | -.-% | -.-% | -4.2% | |
| <i>Performance Objective</i> | | 1.4% | 29.0% | -.-% | -.-% | 20.6% | |
| <i>Value Added</i> | | 0.8% | -6.3% | -.-% | -.-% | -6.2% | |
| Pyrford (MDP) | 0.1 | 2.2% | 17.3% | 20.3% | -.-% | 11.5% | 12/01 |
| <i>Custom Benchmark</i> | | 0.9% | 27.0% | 24.6% | -.-% | 14.4% | |
| <i>Value Added</i> | | 1.3% | -9.7% | -4.3% | -.-% | -2.9% | |
| <i>Performance Objective</i> | | 1.4% | 29.0% | 26.6% | -.-% | 16.4% | |
| <i>Value Added</i> | | 0.8% | -11.7% | -6.3% | -.-% | -4.9% | |

³² The MDP managers are also listed by style elsewhere in this appendix.



International Equity – Emerging Markets

| | Market | Qtr | 1 Year | 3 Year | 5 Year | Incept. | Date |
|-------------------------------|---------------|------------|---------------|---------------|---------------|----------------|-------------|
| Int'l Emerging Markets | Value | 4.5 | 32.0% | 36.4% | -.-% | 36.6% | 9/02 |
| AllianceBernstein | 1.5 | -6.7% | 35.0% | 40.1% | -.-% | 32.8% | 9/02 |
| Custom Benchmark | | -5.3% | 33.0% | 33.9% | -.-% | 25.0% | |
| Value Added | | -1.4% | 2.0% | 6.2% | -.-% | 7.8% | |
| Performance Objective | | -4.7% | 35.5% | 36.4% | -.-% | 27.5% | |
| Value Added | | -2.0% | -0.5% | 3.7% | -.-% | 5.3% | |
| DFA | 1.5 | -6.2% | 28.1% | 33.8% | -.-% | 26.2% | 9/02 |
| Custom Benchmark | | -5.3% | 33.0% | 33.9% | -.-% | 25.0% | |
| Value Added | | -0.9% | -4.9% | -0.1% | -.-% | 1.2% | |
| Performance Objective | | -4.8% | 35.0% | 35.9% | -.-% | 27.0% | |
| Value Added | | -1.4% | -6.9% | -2.1% | -.-% | -0.8% | |
| Genesis | 1.5 | -6.2% | 33.1% | 35.2% | -.-% | 24.1% | 9/02 |
| Custom Benchmark | | -5.3% | 33.0% | 33.9% | -.-% | 25.0% | |
| Value Added | | -0.9% | 0.1% | 1.3% | -.-% | -0.9% | |
| Performance Objective | | -4.7% | 35.5% | 36.4% | -.-% | 27.5% | |
| Value Added | | -1.5% | -2.4% | -1.2% | -.-% | -3.4% | |



External Manager Performance Review (continued)
International Equity – Corporate Governance

| | Market Value | Qtr | 1 Year | 3 Year | 5 Year | Date |
|---|-------------------------|-------------|---------------|---------------|---------------|--------------|
| Total Int'l Corporate Governance | 2.2 | 1.1% | 30.4% | 26.8% | 11.5% | 12/98 |
| Hermes Focus | 0.3 | 7.6% | 16.3% | 20.1% | 10.6% | 12/99 |
| <i>Custom Benchmark</i> | | -1.8% | 19.7% | 21.7% | 10.2% | |
| <i>Value Added</i> | | 9.4% | -3.4% | -1.6% | 0.4% | |
| Hermes Europe | 0.2 | -2.4% | 5.3% | -.-% | -.-% | 9/03 |
| <i>Custom Benchmark</i> | | 1.9% | 28.0% | -.-% | -.-% | |
| <i>Value Added</i> | | -4.3% | -22.7% | -.-% | -.-% | |
| Knight Vinke | 0.4 | 9.3% | 50.6% | -.-% | -.-% | 9/03 |
| <i>Custom Benchmark</i> | | 2.8% | 26.8% | -.-% | -.-% | |
| <i>Value Added</i> | | 6.5% | 23.8% | -.-% | -.-% | |
| Knight Vinke Internal Partners | 0.1 | 8.6% | -.-% | -.-% | -.-% | 3/06 |
| <i>Custom Benchmark</i> | | 2.8% | -.-% | -.-% | -.-% | |
| <i>Value Added</i> | | 5.8% | -.-% | -.-% | -.-% | |
| SPARX Value Creation | 0.6 | -5.8% | 22.3% | 30.6% | -.-% | 3/03 |
| <i>Custom Benchmark</i> | | -8.2% | 34.8% | 21.4% | -.-% | |
| <i>Value Added</i> | | 2.4% | -12.5% | 9.2% | -.-% | |
| Taiyo Fund | 0.5 | -3.6% | 43.3% | -.-% | -.-% | 9/03 |
| <i>Custom Benchmark</i> | | -8.2% | 34.8% | -.-% | -.-% | |
| <i>Value Added</i> | | 4.6% | 8.5% | -.-% | -.-% | |



External Manager Performance Review (continued)

Fixed Income – High Yield

| | Market Value | Qtr | 1 Year | 3 Year | 5 Year | 10 Year |
|----------------------------------|-------------------------|--------------|---------------|---------------|---------------|----------------|
| Total Fixed Income | 49.9 | 0.0% | -1.1% | 3.9% | 8.8% | 7.2% |
| <i>Fixed Income Policy Index</i> | | -0.2% | -2.7% | 2.7% | 6.5% | 6.7% |
| External High Yield | 1.3 | -0.1% | 7.1% | 11.4% | -.-% | -.-% |
| Highland Capital Distressed Fund | 0.2 | -0.3% | 13.8% | 24.4% | -.-% | -.-% |
| <i>Custom Benchmark</i> | | 0.0% | 4.0% | 8.0% | -.-% | -.-% |
| <i>Value Added</i> | | -0.3% | 9.8% | 16.4% | -.-% | -.-% |
| ING Ghent | 0.2 | 1.0% | 5.1% | 8.0% | -.-% | -.-% |
| <i>Custom Benchmark</i> | | 0.0% | 4.0% | 8.0% | -.-% | -.-% |
| <i>Value Added</i> | | 1.0% | 1.1% | 0.0% | -.-% | -.-% |
| Nomura | 0.5 | -0.1% | 6.5% | 9.4% | -.-% | -.-% |
| <i>Custom Benchmark</i> | | 0.0% | 4.0% | 8.0% | -.-% | -.-% |
| <i>Value Added</i> | | -0.1% | 2.5% | 1.4% | -.-% | -.-% |
| PIMCO | 0.5 | -0.8% | 4.4% | 8.3% | -.-% | -.-% |
| <i>Custom Benchmark</i> | | 0.0% | 4.0% | 8.0% | -.-% | -.-% |
| <i>Value Added</i> | | -0.8% | 0.4% | 0.3% | -.-% | -.-% |

Fixed Income – MDP

| | Market Value | Qtr | 1 Year | 3 Year | 5 Year | 10 Year |
|-------------------------------|-------------------------|-------------|---------------|---------------|---------------|----------------|
| DF Manager Development | 0.2 | 0.1% | -0.5% | 2.6% | -.-% | -.-% |
| LM Capital | 0.2 | 0.1% | -0.5% | 2.3% | -.-% | -.-% |
| <i>Custom Benchmark</i> | | -0.1% | -0.8% | 2.1% | -.-% | -.-% |
| <i>Value Added</i> | | 0.2% | 0.3% | 0.2% | -.-% | -.-% |
| <i>Performance Objective</i> | | 0.1% | 0.2% | 3.1% | -.-% | -.-% |
| <i>Value Added</i> | | 0.0% | -0.7% | -0.8% | -.-% | -.-% |



External Manager Performance Review (continued)
Fixed Income – External International

| | Market Value | Qtr | 1 Year | 3 Year | 5 Year | 10 Year |
|-----------------------------------|-------------------------|--------------|---------------|---------------|---------------|----------------|
| Total Fixed Income | 49.9 | 0.0% | -1.1% | 3.9% | 7.1% | 7.2% |
| <i>Fixed Income Policy Index</i> | | -0.2% | -2.7% | 2.7% | 6.5% | 6.7% |
| International Fixed Income | 6.6 | 3.3% | -0.2% | 5.3% | 9.8% | 5.2% |
| Baring | 1.0 | 2.6% | -1.2% | 4.8% | 9.4% | 5.6% |
| <i>Custom Benchmark</i> | | 3.7% | 0.2% | 5.1% | 9.7% | 5.0% |
| <i>Value Added</i> | | -1.1% | -1.4% | -0.3% | -0.3% | 0.6% |
| <i>Performance Objective</i> | | 4.0% | 1.7% | 6.6% | 11.2% | 6.5% |
| <i>Value Added</i> | | -1.4% | -2.9% | -1.8% | -1.8% | -0.9% |
| Bridgewater | 1.3 | 3.9% | 0.1% | 5.7% | 10.6% | -.-% |
| <i>Custom Benchmark</i> | | 3.7% | 0.2% | 5.1% | 9.7% | -.-% |
| <i>Value Added</i> | | 0.2% | -0.1% | 0.6% | 0.9% | -.-% |
| <i>Performance Objective</i> | | 4.0% | 1.7% | 6.6% | 11.2% | -.-% |
| <i>Value Added</i> | | -0.1% | -1.6% | -0.9% | -0.6% | -.-% |
| Julius Baer | 1.3 | 3.1% | -0.6% | 5.1% | 9.5% | 5.3% |
| <i>Custom Benchmark</i> | | 3.7% | 0.2% | 5.1% | 9.7% | 5.0% |
| <i>Value Added</i> | | -0.6% | -0.8% | 0.0% | -0.2% | 0.3% |
| <i>Performance Objective</i> | | 4.0% | 1.7% | 6.6% | 11.2% | 6.5% |
| <i>Value Added</i> | | -0.9% | -2.3% | -1.5% | -1.7% | -1.2% |
| Rogge | 1.7 | 3.3% | 0.3% | 5.6% | 9.9% | -.-% |
| <i>Custom Benchmark</i> | | 3.7% | 0.2% | 5.1% | 9.7% | -.-% |
| <i>Value Added</i> | | -0.4% | 0.1% | 0.5% | 0.2% | -.-% |
| <i>Performance Objective</i> | | 4.0% | 1.7% | 6.6% | 11.2% | -.-% |
| <i>Value Added</i> | | -0.7% | -1.4% | -1.0% | -1.3% | -.-% |
| Western | 1.4 | 3.3% | 0.1% | 5.7% | 10.0% | -.-% |
| <i>Custom Benchmark</i> | | 3.7% | 0.2% | 5.1% | 9.7% | -.-% |
| <i>Value Added</i> | | -0.4% | -0.1% | 0.6% | 0.3% | -.-% |
| <i>Performance Objective</i> | | 4.0% | 1.7% | 6.6% | 11.2% | -.-% |
| <i>Value Added</i> | | -0.7% | -1.6% | -0.9% | -1.2% | -.-% |



External Manager Performance Review (continued)
Fixed Income - Special Investments

| | Market Value | Qtr | 1 Year | 3 Year | 5 Year | 10 Year |
|----------------------------|-------------------------|-------------|---------------|---------------|---------------|----------------|
| Special Investments | 0.8 | 1.6% | 2.2% | 3.2% | 6.1% | 6.1% |
| AFL-CIO HIT | 0.1 | -1.1% | -0.6% | 3.0% | 4.6% | 6.2% |
| Equitable CCMF | 0.0 | 1.8% | 9.1% | 8.1% | 8.1% | 8.9% |
| MHLP-BRS | 0.7 | 2.0% | 2.4% | 3.2% | -.% | -.% |
| U.L.L.I. Co. | 0.0 | 0.6% | 5.0% | 5.3% | 7.6% | 8.8% |



Manager Monitoring

Wilshire will rigorously monitor each of CalPERS' externally-managed investment managers and provide quarterly updates and issues in the Executive Summary.

Domestic Equity

AllianceBernstein

- The manager's relative value philosophy has faced a headwind as deep value has been favored, and has underperformed the benchmark over the one-year and three-year time frames. Since inception, the manager has outperformed both the benchmark and the performance objective. The manager has not changed their process, which Wilshire views favorably. Wilshire is closely monitoring the performance of this manager.

Pzena

- The manager has underperformed over the one-year and three-year time periods, but has outperformed significantly over 5 years and since inception. Recent performance has been hurt by both stock and sector selection. The manager has not changed its process, which Wilshire views favorably. Wilshire met with Pzena during the second quarter. Wilshire is closely monitoring the performance of this manager.

Int'l Equity

Capital Guardian

- The manager continues to outperform its benchmark since inception. However, recent performance has been behind the benchmark and performance objective due to unrewarded sector selection. Wilshire is closely monitoring the manager.

Grantham, Mayo, Van Otterloo

- The manager has underperformed its benchmark and performance objective over the one and three-year periods. Long-term performance is strong and above the performance objective. Wilshire is monitoring the manager to see if there is further deterioration in performance.

Int'l Fixed Income

Baring Int'l

- Underperformance versus performance benchmark over the one-, three- and five-year periods. Baring has outperformed the benchmark over the 10 year time period. Wilshire is closely monitoring the manager.

External High Yield

ING Ghent

- Recent underperformance versus benchmark and performance objective improved during the second quarter. One year and three year performance is now at or above the benchmark. Wilshire met with ING Ghent to discuss the portfolio during the second quarter. Wilshire will continue to closely monitor the manager.



**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Relational Investors

Second Quarter 2006

Investment Type: U.S. Corporate Governance Fund

Inception Date: March 1996

Capital Commitment: \$750 million

| | <u>Quarter</u> | <u>Since Inception</u> |
|-----------------------------|-----------------------|-------------------------------|
| Contributed Capital: | \$ 32.6 million | \$2,646.1 million |
| Distributed Capital: | \$ 101.5 million | \$2,295.6 million |

Market Value (6/30/06): \$ 1,034.8 million

Investment Strategy:

Relational Investors employs a corporate governance strategy aimed at unlocking intrinsic value in underperforming, publicly traded, U.S. companies. When compared to the broader market and industry peers, these companies typically exhibit inferior performance in one or more of the following areas: operations, financial structure, long-term strategy, corporate governance policies or management. Each investment represents a significant percentage of a particular company's outstanding shares, generally 3-10%. Relational Investors then seeks to maximize investment value by initiating contact with the company's management, board of directors and other shareholders to facilitate change.

Summary Analysis:

Number of Investments: 11

Organization: Relational hired Allan Chhay as a senior analyst and Michael Moone as an associate analyst. Relational decided to expand its number of analysts. Also, a fund accountant in the back office left and was replaced by Sandra Berry.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through June 30, 2006, Relational has outperformed its benchmark by 13.78% on an annualized basis.

| | Since Inception |
|----------------------------|------------------------|
| Relational Investors (IRR) | 21.98% |
| S&P 500 Index (IRR) | 8.20% |
| Excess Return | 13.78% |

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Hermes Focus
Second Quarter 2006

Investment Type: U.K. Corporate Governance Fund

Inception Date: November 1999

Capital Commitment: \$200 million

| | <u>Quarter</u> | <u>Since Inception</u> |
|-----------------------------|-----------------------|-------------------------------|
| Contributed Capital: | \$ 0.0 million | \$ 199.9 million |
| Distributed Capital: | \$ 0.0 million | \$ 0.0 million |

Market Value (6/30/06): \$ 332.0 million

Investment Strategy:

Hermes Focus Asset Management (HFAM) employs a corporate governance strategy that seeks to unlock intrinsic value in underperforming, medium-to-large capitalization, publicly traded, U.K. companies. For companies that meet their initial purchase criteria, HLAM identifies areas where value can be improved and recommends strategies for change to the board of directors and company executives. Proposed changes focus on the structure and composition of the board and management, strategic business plans and capital structure. HLAM initially expects to invest in 5-10 companies but intends to be invested in 15 companies as assets grow. Initial positions will range from 1-3% with open market purchases of common stock, however the goal is to have influence over 15-20% of a target company's outstanding shares. All cash balances will be equitized with FTSE 250 futures.

Summary Analysis:

Number of Investments: 13

Organization: Hermes CIO, Nick Mustoe, left at the end of May. Hermes has launched a search for his replacement.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through June 30, 2006, the Hermes UK Focus Fund has outperformed its benchmark by 3.01% on an annualized basis.

| | Since Inception |
|----------------------|------------------------|
| Hermes UK (IRR) | 7.96% |
| FTSE All Share (IRR) | 4.95% |
| Excess Return | 3.01% |

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT
SPARX Asset Management
Second Quarter 2006

Investment Type: Japanese Corporate Governance Fund

Inception Date: January 2003

Capital Commitment: \$200 million

| | <u>Quarter</u> | <u>Since Inception</u> |
|-----------------------------|-----------------------|-------------------------------|
| Contributed Capital: | \$ 4.0 million | \$ 630.0 million |
| Distributed Capital: | \$ 14.9 million | \$ 242.8 million |

Market Value (6/30/06): \$ 627.9 million

Investment Strategy:

The SPARX Value Creation Fund targets underperforming or undervalued companies based in Japan with a market capitalization between \$300 million and \$3 billion. The SPARX Research Platform, which is a research team of ten analysts, will use quantitative and qualitative screens to identify approximately 40 target companies from the SPARX database of 2,500 companies. The Value Creation group then will conduct in-depth research on these target companies by initiating contact with company management. These companies typically exhibit one or more of the following traits: low valuation, potential for balance sheet optimization, or potential for profit improvement. The fund looks to invest in 5-10 companies per year with 5-20% of net asset value dedicated to each investment. It will actively engage and work in partnership with management or major shareholders to unlock the investment's value over a specified period of time. The performance objective for the fund is the Topix Index + 150 basis points.

Summary Analysis:

Number of Investments: 10

Organization: Toshikatsu Kimura, head of Investment & Research as well as PM for the long/short strategy, resigned during the quarter and Tatsuo Yamamuro was named his replacement. SPARX also acquired PMA Capital, a Hong Kong based hedge fund, during the period.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through June 30, 2006, SPARX has outperformed its benchmark by 4.97% on an annualized basis.

| | Since Inception |
|----------------------------|------------------------|
| SPARX Value Creation (IRR) | 27.81% |
| Topix Index (IRR) | 22.84% |
| Excess Return | 4.97% |

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Hermes Focus
Second Quarter 2006

Investment Type: European Corporate Governance Fund

Inception Date: August 2003

Capital Commitment: \$100 million

| | <u>Quarter</u> | <u>Since Inception</u> |
|-----------------------------|----------------|------------------------|
| Contributed Capital: | \$ 0.0 million | \$ 100.0 million |
| Distributed Capital: | \$ 0.0 million | \$ 0.0 million |

Market Value (6/30/06): \$ 203.1 million

Investment Strategy:

Hermes Focus Asset Management (HFAM) employs a corporate governance strategy that seeks to unlock intrinsic value in underperforming, medium-to-large capitalization, publicly traded, European ex-U.K. companies. For companies that meet their initial purchase criteria, HLAM identifies areas where value can be improved and recommends strategies for change to the board of directors and company executives. Proposed changes focus on the structure and composition of the board and management, strategic business plans and capital structure. HLAM initially expects to invest in 5-10 companies but intends to be invested in 15 companies as assets grow. Initial positions will range from 1-3% with open market purchases of common stock, however the goal is to have influence over 15-20% of a target company's outstanding shares. All cash balances will be equitized with FTSE Europe ex-U.K. futures.

Summary Analysis:

Number of Investments: 18

Organization: Hermes CIO, Nick Mustoe, left at the end of May. Hermes has launched a search for his replacement.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through June 30, 2006, the Hermes Europe Focus Fund has outperformed its benchmark by 3.87% on an annualized basis.

| | Since Inception |
|---------------------------|------------------------|
| Hermes Europe (IRR) | 29.38% |
| FTSE Europe ex-U.K. (IRR) | 25.51% |
| Excess Return | 3.87% |

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Taiyo Pacific Partners/WL Ross

Second Quarter 2006

Investment Type: Japanese Corporate Governance Fund

Inception Date: July 2003

Capital Commitment: \$199.6 million

| | <u>Quarter</u> | <u>Since Inception</u> |
|-----------------------------|-----------------------|-------------------------------|
| Contributed Capital: | \$ 0.0 million | \$ 300.1 million |
| Distributed Capital: | \$ 0.0 million | \$ 0.0 million |

Market Value (6/30/06): \$ 543.9 million

Investment Strategy:

Taiyo Pacific Partners/WL Ross believe that public equity investors in Japan can be rewarded with superior returns by investing in companies that will implement corporate governance improvements. The investment strategy has two elements. First, identify undervalued stocks utilizing Taiyo's asset value and earnings potential analysis. Second, create valuation improvements by means of a three-phase corporate governance strategy. The three phases are: improving transparency and disclosure, improving corporate profitability, and improving shareholder value. Taiyo proposes to use its own proprietary database to identify target companies. Once identification is made, Taiyo's strategy is to be a constructive shareholder with those companies willing to make corporate governance improvements.

Summary Analysis:

Number of Investments: 17

Organization: Taiyo hired Jason Aitken as a Director and Milano Furuta as an Associate during the quarter. Taiyo continues to work on the launch of the Taiyo Pearl Fund, a new Japanese micro-cap fund. In addition, WL Ross & Co. announced in July it was being acquired by AMVESCAP and WL Ross will assume responsibility for overseeing Invesco's private equity group. WL Ross, however, does not expect the acquisition to affect his relationship with Taiyo.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through June 30, 2006, Taiyo has outperformed its benchmark by 12.74% on an annualized basis.

| | Since Inception |
|-------------------|------------------------|
| Taiyo (IRR) | 32.48% |
| Topix Index (IRR) | 19.74% |
| Excess Return | 12.74% |

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Knight Vinke
Second Quarter 2006

Investment Type: European Corporate Governance Fund

Inception Date: June 2003

Capital Commitment: \$200 million

| | <u>Quarter</u> | <u>Since Inception</u> |
|-----------------------------|-----------------------|-------------------------------|
| Contributed Capital: | \$ 60.7 million | \$ 322.0 million |
| Distributed Capital: | \$100.9 million | \$ 186.7 million |

Market Value (6/30/06): \$ 246.5 million¹

Investment Strategy:

Knight Vinke believes that in the absence of effective corporate governance and a truly independent board, the separation of ownership and management can create the opportunity for management to act in its own self interest rather than that of the shareholders. The strategy looks to identify underperforming stocks of companies that are fundamentally strong where redress of the underperformance is possible in a reasonable amount of time. The firm believes that detailed fundamental analysis can identify underperforming companies that have strong operating businesses, but are in need of a corporate finance solution to a factor or factors that specifically is depressing the share price. To identify such companies the firm uses several sources: its own screening process through market information services such as Bloomberg, their own industry knowledge, outside brokers, other institutional shareholders, other corporations, industry manager who may have recently retired, or corporate finance professionals.

Summary Analysis:

Number of Investments: 3

Organization: Knight Vinke has hired a consulting firm that provides financial modeling and comparable analysis for additional resources, and is satisfied with the quality of the work so far.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through June 30, 2006, Knight Vinke has outperformed its benchmark by 22.47% on an annualized basis.

| | Since Inception |
|--------------------------------|------------------------|
| Knight Vinke (IRR) | 39.43% |
| FTSE World Series Europe (IRR) | 16.96% |
| Excess Return | 22.47% |

¹ The market value difference between the manager monitoring section and the executive summary is due to a timing of cash flows.

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Shamrock Capital
Second Quarter 2006

Investment Type: U.S. Corporate Governance Fund

Inception Date: December 2004

Capital Commitment: \$100 million

| | <u>Quarter</u> | <u>Since Inception</u> |
|-----------------------------|-----------------------|-------------------------------|
| Contributed Capital: | \$ 15.5 million | \$ 92.2 million |
| Distributed Capital: | \$ 4.7 million | \$ 27.0 million |

Market Value (6/30/06): \$ 75.1 million

Investment Strategy:

Shamrock believes that combining a deep value investment orientation with an activist shareholder approach founded upon best governance practices, results in superior returns for long-term investors. They seek to find underperforming but fundamentally sound businesses, where they can substantially improve shareholder value with their application of good governance practice. They choose to look at companies they can purchase at a significant discount (<40%) to the underlying value and find free cash flow available to owners that typically exceed 10%. Once these criteria are met, Shamrock will only invest if they believe they can persuade the Board and/or management to believe in their activist strategy to make fundamental changes to the governance structure and business. After investing, persistence and careful monitoring is the key to unlocking value.

Summary Analysis:

Number of Investments: 6

Organization: No material changes. Shamrock did indicate that as new commitments come in during the second half of the year it may hire additional support staff.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through June 30, 2006, Shamrock has outperformed its benchmark by 0.29%.

| | Since Inception |
|--------------------|------------------------|
| Shamrock (IRR) | 14.78% |
| Russell 2000 (IRR) | 14.49% |
| Excess Return | 0.29% |

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Blum Capital
Second Quarter 2006

Investment Type: U.S. Corporate Governance Fund

Inception Date: July 2005

Capital Commitment: \$125 million

| | <u>Quarter</u> | <u>Since Inception</u> |
|-----------------------------|-----------------------|-------------------------------|
| Contributed Capital: | \$ 28.8 million | \$ 84.3 million |
| Distributed Capital: | \$ 0.5 million | \$ 3.4 million |

Market Value (6/30/06): \$ 79.1 million

Investment Strategy:

Blum believes that its private equity investment approach executed in the small- and mid-cap sectors of the public market results in superior returns for long-term investors. Blum seeks to find undervalued “good businesses”, where it can substantially improve shareholder value by working in partnership with management and Boards of Directors to implement value-enhancing strategies. Blum chooses to look at companies with a 10% cash-on-cash yield combined with a projected 10% growth rate in the free cash flow. Once the criteria are met, Blum will only invest if it believes that management and the Board will be receptive to its suggestions. The benchmark for Blum is an absolute return of 8% per annum.

Summary Analysis:

Number of Investments: 17

Organization: No material changes.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through June 30 Blum has outperformed its benchmark by 1.72%.

| | Since Inception |
|--------------------|------------------------|
| Blum Capital (IRR) | -3.87% |
| Russell 2000 (IRR) | -5.59% |
| Excess Return | 1.72% |

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

New Mountain Vantage

Second Quarter 2006

Investment Type: U.S. Corporate Governance Fund

Inception Date: January 2006

Capital Commitment: \$200 million

| | <u>Quarter</u> | <u>Since Inception</u> |
|-----------------------------|-----------------------|-------------------------------|
| Contributed Capital: | \$ 0.0 million | \$ 200.0 million |
| Distributed Capital: | \$ 0.0 million | \$ 0.0 million |

Market Value (6/30/06): \$ 206.1 million

Investment Strategy:

New Mountain's strategy is to proactively identify deeply undervalued companies through intensive research and then to unlock the value of these companies by working with management to improve the businesses for the benefit of all shareholders. New Mountain will pursue this value-added strategy for the many situations where a negotiated purchase of control of a public company is not available, but where New Mountain can acquire public shares in the open market and use its style of active ownership to increase the value of the firm's stock. They begin with a "Top-Down" approach, looking at sectors that have stable demands with high growth potentials. They seek companies where barriers to new entry are high, companies have pricing power, and where free cash flow generation characteristics are strong.

Summary Analysis:

Number of Investments: 14

Organization: Two junior-level associates left for MBAs during the quarter and New Mountain will be replacing them in the coming quarter. New Mountain has high confidence in the potential on one of the portfolio investments that it is working with CalPERS to set up a separate vehicle to provide additional direct investment.

Philosophy/Process: No material changes.

Performance Analysis:

New Mountain has outperformed its benchmark by 3.08% since inception. However, this is the second quarter for the manager and Wilshire will continue to monitor performance.

| | Since Inception |
|--------------------|------------------------|
| New Mountain (IRR) | 3.19% |
| S&P 500 (IRR) | 0.11% |
| Excess Return | 3.08% |

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Breeden Partners
Second Quarter 2006

Investment Type: U.S. Corporate Governance Fund

Inception Date: June 2006

Capital Commitment: \$400 million

| | <u>Quarter</u> | <u>Since Inception</u> |
|-----------------------------|-----------------------|-------------------------------|
| Contributed Capital: | \$ 37.4 million | \$ 37.4 million |
| Distributed Capital: | \$ 0.0 million | \$ 0.0 million |

Market Value (6/30/06): \$ 37.0 million

Investment Strategy:

Breeden's philosophy is to invest in US companies that are experiencing underperformance and diminished valuation due to correctable problem in policy and governance. The Fund will target mid-to-large-cap companies ranging from \$500 million to \$10 billion in market capitalization. The portfolio will be concentrated and will typically hold 8 to 12 positions. The objective of the Fund is to outperform the S&P 500 Index by 10% over the long-term.

Summary Analysis:

Number of Investments: 2

Organization: No material changes.

Philosophy/Process: No material changes.

Performance Analysis:

New Mountain underperformed its benchmark by 3.87% since inception. However, this is the first quarter for the manager and current performance should not be used as indicator of future performance.

| | Since Inception |
|------------------------|------------------------|
| Breeden Partners (IRR) | -2.00% |
| S&P 500 (IRR) | 1.87% |
| Excess Return | -3.87% |